



**Auditor of State
Betty Montgomery**

NEWTON FALLS PUBLIC LIBRARY
TRUMBULL COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Assets – Cash Basis	9
Statement of Activities – Cash Basis	10
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances	11
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances – Governmental Funds	12
Statement of Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual – (Budget Basis) - General Fund	13
Notes to the Basic Financial Statements	15
Independent Accountants' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Newton Falls Public Library
Trumbull County
204 South Canal Street
Newton Falls, Ohio 44444

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities and major funds of Newton Falls Public Library, Trumbull County, Ohio (the Library), as of and for the year ended December 31, 2004, 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 Comptroller General of the United States' *Government Auditing Standard*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities and each major fund of Newton Falls Public Library, Trumbull County, Ohio, as of December 31, 2004, and the respective changes in cash financial position and the 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, 2004, 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 December 20, 2005, 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

December 20, 2005

Newton Falls Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

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

Highlights

Key highlights for 2004 are as follows:

Net assets of governmental activities increased \$47,199, or 14 percent.

The Library's general receipts are primarily State Library and Local Government Support Fund receipts and property tax receipts. These receipts represent respectively 82 percent and 12 percent of the total cash received for governmental activities during the year. These receipts for 2004 changed very little compared to 2003.

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. The Library has two funds: the General Fund and the Capital Projects Fund.

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

Basis of Accounting

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

Newton Falls Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

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

Reporting the Library as a Whole

The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis reflect how the Government did financially during 2004, within the limitations of cash basis of accounting. The statement of net assets presents the cash balances of the governmental activities of the Library at year end. The statement of activities compares cash disbursements with program receipts for each governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting operational 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 Library function draws from the Library's general receipts.

These statements report the Library's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Library's financial health. Over time, increases or decreases in the Library's cash position is one indicator of whether the Library's financial health is improving or deteriorating. When evaluating the Library's financial condition, you should also consider other nonfinancial factors such as the condition of the Library's capital assets and the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

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 general public services, purchased and contracted services, library materials and information, and capital outlay. State Library funds and local property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Library's Most Significant Funds

Fund financial statements provide detailed information about the Library's major funds – not the Library as a whole. The Library establishes separate funds to better manage its 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 two funds of the Library are governmental.

Newton Falls Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Governmental Funds – All of the Library's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Library's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Library's programs. The Library's significant governmental funds (the General Fund and the Capital Projects Fund) are presented on the financial statements in separate columns.

The Library as a Whole

Table 1 provides a summary of the Library's net assets for 2004 compared to 2003 on a cash basis:

(Table 1)
Net Assets - Cash Basis

	Governmental Activities	
	2004	2003
Assets		
Equity in Pooled Cash and Cash Equivalents	\$374,875	\$327,676
Total Assets	\$374,875	\$327,676
 Net Assets		
Restricted for:		
Capital Outlay	\$238,780	\$227,113
Unrestricted	136,095	100,563
Total Net Assets	\$374,875	\$327,676

Table 2 reflects the changes in net assets in 2004. Since the Library did not prepare financial statements in this format for 2003, 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.

Newton Falls Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

(Table 2)
Changes in Net Assets

	Governmental Activities <u>2004</u>
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$15,412
Operating Grants and Contributions	<u>2,121</u>
Total Program Receipts	<u>17,533</u>
General Receipts:	
Property Taxes	100,223
Homestead and Rollbacks	12,909
Other Intergovernmental	880
LLGSF	698,799
Other Donations	4,677
Interest	9,090
Miscellaneous	<u>4,960</u>
Total General Receipts	<u>831,538</u>
Total Receipts	<u>849,071</u>
Disbursements:	
Salaries and Fringe Benefits	547,220
Supplies	21,145
Purchased and Contracted Services	119,918
Library and Materials Information	81,353
Miscellaneous	7,131
Capital Outlay	<u>25,105</u>
Total Disbursements	<u>801,872</u>
Increase (Decrease) in Net Assets	47,199
Net Assets, January 1, 2004	<u>327,676</u>
Net Assets, December 31, 2004	<u><u>\$374,875</u></u>

Program receipts represent only 2.5 percent of total receipts and are primarily comprised of patron fines and donations.

General receipts represent 97.5 percent of the Library's total receipts, and of this amount, over 84 percent are library and local government funds. Property taxes are 12 percent of general receipts and other intergovernmental receipts are about 2 percent. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Newton Falls Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

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

Governmental Activities

If you look at the Statement of Activities on page 10, 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 disbursements for governmental activities are for salaries and employee fringe benefits, which account for 50 and 18 percent of all governmental disbursements, respectively. The next two columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and donations 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 the State Library and Local Government Support Fund, property taxes and other receipts. 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 2004	Net Cost of Services 2004
	<u>2004</u>	<u>2004</u>
Current		
Salaries	399,116	399,116
Employee Fringe Benefits	148,104	148,104
Supplies	21,145	21,145
Purchased and Contracted Services	119,918	119,918
Library Materials and Information	81,353	63,820
Capital Outlay	25,105	25,105
Other	7,131	7,131
Total Expenses	<u>\$801,872</u>	<u>\$784,339</u>

The dependence upon the State Library and Local Government Support Fund and property tax receipts is apparent as over 99 percent of governmental activities are supported through these general receipts.

Newton Falls Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The Library's Funds

Total governmental funds had receipts of \$849,071 and disbursements of \$801,872. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$35,532 as the result of efforts to contain costs and careful spending to compensate for the stagnancy of receipts from the Library and Local Support Fund (LLGSF).

General Fund receipts were greater than disbursements by \$35,532 indicating that the efforts to contain cost and limit expenses were successful. It was the recommendation of the administration that a reduction in disbursements was preferable to requesting additional funds from the taxpayers. These cuts will not eliminate the need for additional funds (or additional cuts) in the future if the growth in property and income taxes remains stagnant.

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 2004, the Government amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts due to conservatism in estimating other receipts.

Current Issues

As the preceding information shows, the Library depends heavily on the State of Ohio's Library and Local Government Support Fund (LLGSF). The LLGSF has been frozen for the last six months of calendar year 2005 at the 2004 level. In 2006 the LLFSF will be frozen at the 2005 level; however, the Library will receive 7.6 percent of Trumbull County's allocation in 2006 as compared to 8.1 percent in 2005 – a loss of \$43,373. The Library will be faced with making changes over the next several years to contain costs and determine what other options are available to the Library to increase financial resources.

Contacting the Government'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 Georgina Cogley, Clerk-Treasurer, Newton Falls Public Library, 204 South Canal Street, Newton Falls, Ohio 44444.

Newton Falls Public Library, Trumbull County

Statement of Net Assets - Cash Basis

December 31, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$374,875</u>
<i>Total Assets</i>	<u><u>\$374,875</u></u>
Net Assets:	
Restricted for:	
Capital Projects	\$238,780
Unrestricted	<u>136,095</u>
<i>Total Net Assets</i>	<u><u>\$374,875</u></u>

See accompanying notes to the basic financial statements

Newton Falls Public Library, Trumbull County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2004

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Library Services:				
Salaries	\$399,116			(\$399,116)
Employee Fringe Benefits	148,104			(148,104)
Supplies	21,145			(21,145)
Purchased and Contracted Services	119,918			(119,918)
Library Materials and Information	81,353	\$15,412	\$2,121	(63,820)
Miscellaneous	7,131			(7,131)
Capital Outlay	25,105			(25,105)
<i>Total Governmental Activities</i>	<u>\$801,872</u>	<u>\$15,412</u>	<u>\$2,121</u>	(784,339)
		General Receipts		
				100,223
				12,909
				880
				698,799
				9,090
				4,677
				4,960
			<i>Total General Receipts</i>	831,538
			Change in Net Assets	47,199
			Net Assets, <i>Beginning of Year</i>	<u>327,676</u>
			<i>Net Assets End of Year</i>	<u>\$374,875</u>

See accompanying notes to the basic financial statements

Newton Falls Public Library, Trumbull County
Statement of Cash Basis Assets and Fund Balances
 December 31, 2004

	General	Capital Projects Fund	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$136,095	\$238,780	\$374,875
<i>Total Assets</i>	<u>\$136,095</u>	<u>\$238,780</u>	<u>\$374,875</u>
Fund Balances			
Reserved for:			
Encumbrances	\$136,095		\$136,095
Unreserved for:			
Undesignated, Reported in:			
Capital Projects Fund		\$238,780	\$238,780
<i>Total Fund Balances</i>	<u>\$136,095</u>	<u>\$238,780</u>	<u>\$374,875</u>

See accompanying notes to the basic financial statements

Newton Falls Public Library, Trumbull County

*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds*

For the Year Ended December 31, 2004

	General	Capital Projects Fund	Total Governmental Funds
Receipts			
Property and Other Local Taxes	\$100,223		\$100,223
Intergovernmental other than LLGSF	13,789		13,789
LLGSF	698,799		698,799
Patron Fines and Fees	15,412		15,412
Contributions, Gifts and Donations	2,121	\$4,677	6,798
Earnings on Investments	2,100	6,990	9,090
Miscellaneous	4,960		4,960
<i>Total Receipts</i>	<u>837,404</u>	<u>11,667</u>	<u>849,071</u>
Disbursements			
Current:			
Library Services:			
Salaries	399,116		399,116
Employee Fringe Benefits	148,104		148,104
Supplies	21,145		21,145
Purchased and Contracted Services	119,918		119,918
Library and Materials Information	81,353		81,353
Miscellaneous	7,131		7,131
Capital Outlay	25,105		25,105
<i>Total Disbursements</i>	<u>801,872</u>	<u>0</u>	<u>801,872</u>
<i>Excess of Receipts Over / (Under) Disbursements</i>	<u>35,532</u>	<u>11,667</u>	<u>47,199</u>
<i>Net Change in Fund Balances</i>	35,532	11,667	47,199
<i>Fund Balances Beginning of Year</i>	<u>100,563</u>	<u>227,113</u>	<u>327,676</u>
<i>Fund Balances End of Year</i>	<u><u>\$136,095</u></u>	<u><u>\$238,780</u></u>	<u><u>\$374,875</u></u>

See accompanying notes to the basic financial statements

Newton Falls Public Library, Trumbull County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - (Budget Basis)
General Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>			(Optional)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Receipts				
Property and Other Intergovernmental	\$119,477	\$113,132	\$114,012	\$880
Library and Local Government Support	698,412	698,799	698,799	0
Other Sources	4,103	25,473	24,593	(880)
<i>Total receipts</i>	<u>821,992</u>	<u>837,404</u>	<u>837,404</u>	<u>0</u>
Disbursements				
Public Services:				
Salaries	439,116	439,116	439,116	0
Employee Fringe Benefits	158,104	158,104	158,104	0
Supplies	21,608	21,608	21,608	0
Purchased and Contracted Services	133,988	133,988	133,988	0
Library Materials and Information	91,742	91,742	91,742	0
Capital Outlay	70,801	86,213	86,213	0
Miscellaneous	7,196	7,196	7,196	0
<i>Total Disbursements</i>	<u>922,555</u>	<u>937,967</u>	<u>937,967</u>	<u>0</u>
<i>Excess of Receipts Over / Under) Disbursements</i>	<u>(100,563)</u>	<u>(100,563)</u>	<u>(100,563)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(100,563)	(100,563)	(100,563)	0
<i>Fund Balance Beginning of Year</i>	0	0	0	0
Prior Year Encumbrances Appropriated	<u>100,563</u>	<u>100,563</u>	<u>100,563</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

See accompanying notes to the basic financial statements

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Newton Falls Public Library
Trumbull County

Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 1 – Description of the Library and Reporting Entity

Newton Falls Public Library, Trumbull County, (the Library) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of Ohio. The Library is directed by a seven-member Board of Trustees appointed by the Newton Falls Board of Education. The Library provides the community with various educational and literary resources.

A reporting entity is comprised of the primary government, component units and other organizations included to ensure that the basic financial statements of the Library are not misleading. The primary government consists of all funds of the Library.

Component units are legally separate organizations for which the Library is financially accountable. Component units may also include organizations that are fiscally dependent on the Library in that the Library approves their budget, the issuance of debt or the levying of their taxes. The Library has no component units.

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

Note 2 - Summary of Significant Accounting Policies

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 statements include the financial activities of the Library. Governmental activities generally are financed through taxes, intergovernmental receipts and other nonexchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the Library at year end. The statement of activities compares disbursements with program receipts for each of the Library's governmental activities. 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 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.

Newton Falls Public Library
Trumbull County

Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 2 - Summary of Significant Accounting Policies (continued)

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 two funds are 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 balance is available to the Library for any purpose provided it is expended or transferred according to the general laws of Ohio.

Capital Projects Fund - The capital projects fund accounts for monies set aside by the Board of Library Trustees specifically for the acquisition of capital assets or major capital improvements.

C. Basis of Accounting

The Library's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Library's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and 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 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 and character or major category of the object code level for all funds. Budgetary modifications at the legal level of control may only be made by resolution of the Board of Library Trustees.

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

Newton Falls Public Library
Trumbull County

Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 2 - Summary of Significant Accounting Policies (continued)

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 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 2004, investments were limited to a money market fund, STAR Ohio and nonnegotiable certificates of deposit. 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, 2004.

F. Inventory and Prepaid Items

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

G. Capital Assets

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

H. Accumulated Leave

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

I. Employer Contributions to Cost-Sharing Pension Plans

The Library recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Net Assets

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

Newton Falls Public Library
Trumbull County

Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 2 - Summary of Significant Accounting Policies (continued)

K. Fund Balance Reserves

The Library reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved and undesignated fund balance 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 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 – 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 (budgetary basis) amounted to \$136,095 for the general fund.

Note 5 - Deposits and Investments

State statutes classify monies held by the Library into three categories.

Active deposits are public deposits necessary to meet current demands on the Library treasury. Such 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 Library has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by 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 may 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;

Newton Falls Public Library
Trumbull County

Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 5 - Deposits and Investments (continued)

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

	<u>2004</u>
Demand deposits	<u>\$130,674</u>
Certificates of deposit	<u>212,457</u>
Total deposits	<u>343,131</u>
STAR Ohio	<u>31,744</u>
Total investments	<u>31,744</u>
Total deposits and investments	<u>\$374,875</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio are not evidenced by securities existing in physical or book-entry form.

Newton Falls Public Library
Trumbull County

Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 6 – Grants –In-Aid and Property Taxes

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

Real property taxes become a lien on January 1 preceding the October 1 date for which the taxing authority of the subdivision to whose jurisdiction the Library is subject adopts rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Other Governments' Grants In Aid. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the taxing district.

Property owners assess tangible personal property tax. These owners must file a list of tangible property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Library.

Note 7 - Risk Management

The Library has obtained commercial insurance for the following risks:

- Comprehensive Property and Commercial Liability
- Errors and Omissions Liability

The Library also provides health, dental, vision, and life insurance to all eligible employees. Coverage varies according to full- or part-time status and family or single plan.

Note 8 - 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.

Newton Falls Public Library
Trumbull County

Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note 8 - Defined Benefit Pension Plan (continued)

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

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2004 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

Note 9 - 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 2004 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, 2003, 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 2004 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, 2003, (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.

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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***

Newton Falls Public Library
Trumbull County
204 South Canal Street
Newton Falls, Ohio 44444

To the Board of Trustees:

We have audited the financial statements of the governmental activities and each major fund of Newton Falls Public Library (the Library) as of and for the year ended December 31, 2004, which collectively comprise the Library's basic financial statements and have issued our report thereon dated December 20, 2005 wherein we noted the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standards Board Statement No. 34. 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 that we must report under *Government Auditing Standards*.

Newton Falls Public Library
Trumbull 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 management and Board of Trustees. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 20, 2005



**Auditor of State
Betty Montgomery**

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NEWTON FALLS PUBLIC LIBRARY

TRUMBULL 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
JANUARY 12, 2006**