



**Auditor of State
Betty Montgomery**

**WASHINGTON COUNTY PUBLIC LIBRARY
WASHINGTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Washington County Public Library
Washington County
615 Fifth Street
Marietta, Ohio 45750

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Washington County Public Library, Washington 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.

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

Payroll disbursements reported in the funds of the Library are processed by a service organization that is independent of the Library. As of July 1, 2005, the Library changed service organizations for its payroll processing. This service organization did not provide us with the information we requested regarding the design or proper operation of their internal control relative to the processing of the Library's payroll disbursements. As a result, we were unable to perform procedures to satisfy ourselves as to the proper processing of the payroll disbursements for the last six months in 2005. These disbursements represent 31% of the disbursements reported within the General Fund.

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, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine certain information regarding payroll disbursements from July 1, 2005 through December 31, 2005, 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 Washington County Public Library, Washington 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 Standards Board Statement 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 29, 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 29, 2006

Washington County Public Library
Washington County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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

Highlights

Key highlights for 2005 are as follows:

Net assets of the Library's activities increased \$125,380, or 11.5 percent. The fund most affected by an increase in cash and cash equivalents was the Capital Fund.

The Library's general receipts are primarily from the Library and Local Government Support Fund (LLGSF). These receipts represent respectively \$2,369,599 and 94.9 percent of the total cash received for governmental activities during the year. LLGSF receipts have been frozen and these receipts for 2005 changed very little compared to 2004.

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 modified cash basis of accounting.

Report Components

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

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

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

Basis of Accounting

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

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

Washington County Public Library
Washington County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
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Reporting the Library as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Library at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Library's general receipts.

These statements report the Library's cash position and the changes in cash position. Keeping in mind the limitations of the modified 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 as well, such as 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 major local revenue sources such as LLGSF.

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

Governmental activities. Most of the Library's basic services are reported here, including library services, support services, and capital outlay. The LLGSF finances 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 many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Library are all in the governmental category.

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 are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Library's major governmental funds are the General Fund and Capital Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Washington County Public Library
Washington County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The Government as a Whole

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

(Table 1)
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$ 615,464	\$ 1,047,423
Investments	601,320	43,981
Total Assets	\$ 1,216,784	\$ 1,091,404
 Net Assets		
Restricted for:		
Capital Outlay	\$ 649,154	\$ 399,913
Other Purposes	11,514	18,983
Unrestricted	556,116	672,508
Total Net Assets	\$ 1,216,784	\$ 1,091,404

As mentioned previously, net assets of governmental activities increased \$125,380 or 11.5 percent during 2005. The primary reasons contributing to the increases in cash balances are as follows:

- An increase of \$23,516 in Earnings on Investments due to increased interest rates.
- A decrease in capital outlay of 31%.
- A decrease in payroll expense of 2.9% due to vacant Director position for 6 months of 2005.

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.

Washington County Public Library
Washington County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

(Table 2)
Changes in Net Assets

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Patron Fines and Lost Item Income	\$ 62,921
Other Patron Fines and Fees	16,028
Total Program Receipts - Charges for Services	78,949
General Receipts:	
Intergovernmental - LLGSF	2,369,599
Restricted Gifts and Contributions	9,118
Interest	35,850
Other Financing Sources	638
Miscellaneous	4,429
Total General Receipts	2,419,634
Total Receipts	2,498,583
Disbursements:	
Public Service and Programs	390,881
Payroll & Benefits	1,456,188
Library Materials and Information	359,480
Capital Outlay	166,654
Total Disbursements	2,373,203
Increase (Decrease) in Net Assets	125,380
Net Assets, January 1, 2005	1,091,404
Net Assets, December 31, 2005	\$ 1,216,784

Program receipts represent only 2.8 percent of total receipts and are primarily comprised of fines, copier, fax and lost material fees.

General receipts represent 97.2 percent of the Library's total receipts, and of this amount, over 97.9 percent are Library and Local Government Support Funds. Restricted gifts and contributions, miscellaneous receipts and interest make up 2.0 percent of the Library's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Governmental Activities

If you look at the statement of activities, you will see that the first column lists the major services provided by the Library. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for Payroll and Benefits and Public Service and Programs, which account for 61 and 16 percent of all governmental disbursements, respectively.

Washington County Public Library
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Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The next column of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service. The Net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and net cost is presented in Table 3.

(Table 3)
Governmental Activities

	Total Cost Of Services 2005	Net Cost of Services 2005
Public Service and Programs	\$ 390,881	\$ 311,932
Library Materials and Information	359,480	359,480
Payroll and Benefits	1,456,188	1,456,188
Capital Outlay	166,654	166,654
Total Cash Disbursements	\$ 2,373,203	\$ 2,294,254

The Library's Funds

Total governmental funds had receipts of \$2,497,945 and disbursements of \$2,373,203. The greatest change within governmental funds occurred within the Capital Fund. The fund balance of the Capital Fund increased \$249,241 as the result of transfers from General Fund.

General Fund Budgeting Highlights

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

During 2005, the Library amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts due to higher investment earnings and stable LLGSF. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$2,346,234 while actual disbursements were \$2,346,230. The Library kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The result is the decrease in fund balance of \$198,647 for 2005.

Capital Assets

Industrial Appraisal Company completed an appraisal on July 26, 2005 and report dated February 3, 2006, of the buildings, fixtures, furniture and equipment of the Washington County Public Library by location. The purpose of this study is to establish an independent, professional opinion of the insurable value of the property appraised and to provide proof of loss documentation should the need arise. The value of these capital assets has not been reported in the basic financial statements.

Washington County Public Library
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Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Current Issues

The challenge for all Libraries is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on the Library and Local Government Support Fund. With the LLGSF being frozen at the 2004 level for 2005 and with the uncertainty of future funding, 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 Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Washington County Public 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 Sandra A. Starr, Business Manager/Clerk-Treasurer, Washington County Public Library, 615 Fifth Street, Marietta, Ohio 45750.

Washington County Public Library
Washington County
Statement of Net Assets - Modified Cash Basis
December 31, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 615,464
Investments	<u>601,320</u>
<i>Total Assets</i>	<u><u>\$ 1,216,784</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$ 649,154
Other Purposes	11,514
Unrestricted	<u>556,116</u>
<i>Total Net Assets</i>	<u><u>\$ 1,216,784</u></u>

See accompanying notes to the basic financial statements

Washington County Public Library
Washington County
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2005

	<u>Cash</u> <u>Disbursements</u>	<u>Program</u> <u>Cash Receipts</u>	<u>Net Receipts</u> <u>(Disbursements)</u> <u>and Changes</u> <u>in Net Assets</u>
		<u>Charges</u> <u>for Services</u> <u>and Sales</u>	<u>Governmental</u> <u>Activities</u>
Governmental Activities			
Public Service and Programs	\$ 390,881	\$ 78,949	\$ (311,932)
Library Materials and Information	359,480		(359,480)
Payroll and Benefits	1,456,188		(1,456,188)
Capital Outlay	166,654		(166,654)
<i>Total Governmental Activities</i>	<u>\$ 2,373,203</u>	<u>\$ 78,949</u>	<u>(2,294,254)</u>
General Receipts			
			2,369,599
Intergovernmental			9,118
Restricted Gifts & Donations			35,850
Earnings on Investments			4,429
Miscellaneous			638
Other Financing Sources			<u>638</u>
<i>Total General Receipts</i>			<u>2,419,634</u>
Change in Net Assets			125,380
<i>Net Assets Beginning of Year</i>			<u>1,091,404</u>
<i>Net Assets End of Year</i>			<u>\$ 1,216,784</u>

See accompanying notes to the basic financial statements

Washington County Public Library
Washington County
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	General Fund	Capital Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 556,116	\$ 47,834	\$ 11,514	\$ 615,464
Investments		601,320		601,320
<i>Total Assets</i>	<u>\$ 556,116</u>	<u>\$ 649,154</u>	<u>\$ 11,514</u>	<u>\$ 1,216,784</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$ 82,255	\$ 250	\$	\$ 82,505
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	473,861			473,861
Special Revenue Funds			11,514	11,514
Capital Projects Funds		648,904		648,904
<i>Total Fund Balances</i>	<u>\$ 556,116</u>	<u>\$ 649,154</u>	<u>\$ 11,514</u>	<u>\$ 1,216,784</u>

See accompanying notes to the basic financial statements

**Washington County Public Library
Washington 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 Fund	Capital Fund	Other Governmental Funds	Total Governmental Funds
Cash Receipts				
Intergovernmental	\$ 2,369,599	\$	\$	\$ 2,369,599
Public Services and Programs	78,949			78,949
Restricted Gifts and Contributions	8,118		1,000	9,118
Earnings on Investments	35,850			35,850
Miscellaneous	4,429			4,429
<i>Total Cash Receipts</i>	<u>2,496,945</u>	<u>0</u>	<u>1,000</u>	<u>2,497,945</u>
Cash Disbursements				
Public Services and Programs	386,162		4,719	390,881
Payroll and Benefits	1,456,188			1,456,188
Library Materials and Information	355,730		3,750	359,480
Capital Outlay	65,895	100,759		166,654
<i>Total Cash Disbursements</i>	<u>2,263,975</u>	<u>100,759</u>	<u>8,469</u>	<u>2,373,203</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>232,970</u>	<u>(100,759)</u>	<u>(7,469)</u>	<u>124,742</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	638			638
Transfers In		350,000		350,000
Transfers Out	(350,000)			(350,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(349,362)</u>	<u>350,000</u>	<u>0</u>	<u>638</u>
<i>Net Change in Fund Balances</i>	(116,392)	249,241	(7,469)	125,380
<i>Fund Balances Beginning of Year</i>	<u>672,508</u>	<u>399,913</u>	<u>18,983</u>	<u>1,091,404</u>
<i>Fund Balances End of Year</i>	<u>\$ 556,116</u>	<u>\$ 649,154</u>	<u>\$ 11,514</u>	<u>\$ 1,216,784</u>

See accompanying notes to the basic financial statements

Washington County Public Library
Washington 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>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Cash Receipts				
Intergovernmental	\$ 2,248,152	\$ 2,369,152	\$ 2,369,599	\$ 447
Public Services and Programs	66,700	66,700	78,949	12,249
Restricted Gifts and Contributions	2,600	2,600	8,118	5,518
Unrestricted Gifts and Contributions	1,000	1,000		(1,000)
Earnings on Investments	12,000	31,000	35,850	4,850
Miscellaneous	1,200	1,200	4,429	3,229
<i>Total Cash Receipts</i>	<u>2,331,652</u>	<u>2,471,652</u>	<u>2,496,945</u>	<u>25,293</u>
Cash Disbursements				
Public Services and Programs	441,070	410,905	410,901	(4)
Payroll and Benefits	1,512,284	1,456,403	1,456,403	0
Library Materials and Information	422,165	390,626	390,626	0
Capital Outlay	50,916	88,300	88,300	0
<i>Total Cash Disbursements</i>	<u>2,426,435</u>	<u>2,346,234</u>	<u>2,346,230</u>	<u>(4)</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(94,783)</u>	<u>125,418</u>	<u>150,715</u>	<u>25,297</u>
Other Financing Sources (Uses)				
Other Financing Sources	800	800	638	(162)
Transfers Out		(350,000)	(350,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>800</u>	<u>(349,200)</u>	<u>(349,362)</u>	<u>(162)</u>
<i>Net Change in Fund Balance</i>	(93,983)	(223,782)	(198,647)	25,135
<i>Fund Balance Beginning of Year</i>	561,063	561,063	561,063	0
Prior Year Encumbrances Appropriated	111,445	111,445	111,445	0
<i>Fund Balance End of Year</i>	<u>\$ 578,525</u>	<u>\$ 448,726</u>	<u>\$ 473,861</u>	<u>\$ 25,135</u>

See accompanying notes to the basic financial statements

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Washington County Public Library
Washington County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 1 – Description of the Library and Reporting Entity

The Washington County Public Library was organized as a county public library under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members, of which three are appointed by the Washington County Court of Common Pleas, and four are appointed by the Washington County Commissioners. Appointments are for seven-year terms and members serve without compensation. Under Ohio statutes, the Library is a body politic and corporate capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. Control and management of the Library is governed by Sections 3375.33 to 3375.39 of the Ohio Revised Code with the administration of the day-to-day operations of the Library being the responsibility of the Director and financial accountability being solely that of the Clerk-Treasurer.

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

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

Component units are legally separate organizations for which the Library is financially accountable. The Library is financially accountable for an organization if the Library appoints a voting majority of the organization's governing board and (1) the Library is able to significantly influence the programs or services performed or provided by the organization; or (2) the Library is legally entitled to or can otherwise access the organization's resources; the Library is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Library is obligated for the debt of the organization. The Library is also financially accountable for any organizations for which the Library approves the budget, the issuance of debt or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Library, are accessible to the Library and are significant in amount to the Library. The Library has one component unit.

The Washington County Public Library Foundation, Inc. is a not-for-profit member of the Marietta Foundation, Inc. The Washington County Public Library Board of Trustees serves as the WCPL Foundation Board. The market value of the investments held by the Foundation was \$6,137 as of December 31, 2005. The market value is not considered significant to the basic financial statements of the Library. Therefore, this organization has been excluded from the reporting entity of the Library.

The Friends of the Washington County Public Library, Inc., is a not-for-profit organization with a self-appointing board. The Library is not financially accountable for the organization, nor does the Library approve the budget or the issuance of debt of the organization. Therefore, this organization has been excluded from the reporting entity of the Library.

The Friends of the Barlow Library, Inc., is a not-for-profit organization with a self-appointing board. The Library is not financially accountable for the organization, nor does the Library approve the budget or the issuance of debt of the organization. Therefore, this organization has been excluded from the reporting entity of the Library.

Washington County Public Library
Washington County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 1 – Description of the Library and Reporting Entity (Continued)

The Friends of the Beverly Library, Inc., is a not-for-profit organization with a self-appointing board. The Library is not financially accountable for the organization, nor does the Library approve the budget or the issuance of debt of the organization. Therefore, this organization has been excluded from the reporting entity of the Library.

The Friends of the Belpre Library, Inc., is a not-for-profit organization with a self-appointing board. The Library is not financially accountable for the organization, nor does the Library approve the budget or the issuance of debt of the organization. Therefore, this organization has been excluded from the reporting entity of the Library.

The New Matamoras Library Association is a not-for-profit organization with a self-appointing board. The Library is not financially accountable for the organization, nor does the Library approve the budget or the issuance of debt of the organization. Therefore, this organization has been excluded from the reporting entity of the Library.

The Southeastern Ohio Library Organization (SOLO) is a regional library system created and jointly governed according the provisions of the Ohio Revised Code Sections 3375.90 through 3375.93. SOLO is composed of thirteen legally-separate libraries within Southeast Ohio. It is not considered a component unit of the Washington County Public Library, but is classified as a jointly governed organization. More information can be found in Note 11.

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

As discussed further in Note 2.C, the financial statements of the Washington County Public Library have been prepared on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, 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 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 primary government. Governmental activities generally are financed through taxes, intergovernmental receipts and other nonexchange transactions.

Washington County Public Library
Washington County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (Continued)

The statement of net assets presents the modified cash balance of the governmental activities of the Library at year end. The statement of activities compares disbursements with program receipts for each of the Library's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Library is responsible.

Program receipts include charges paid by the recipient of the program's goods or services, 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 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 in a separate column. Nonmajor funds are aggregated and presented in a single column.

B. Fund Accounting

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

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

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

C. Basis of Accounting

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

Washington County Public Library
Washington County
Notes to the Basic Financial Statements
For the Year Ended 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 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, function and 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.

E. Cash and Cash Equivalents

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

Investments with original maturities of three months or less at the time they are purchased and investments of the cash management pool are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2005, investments were limited to STAROhio and a high balance savings account. 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 Rule 2a7 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 receipt credited to the General Fund during 2005 amounted to \$35,850.

Washington County Public Library
Washington County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (Continued)

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 inventories 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. Long-Term Obligations

The Library's modified cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid. There was no long-term obligation as of December 31, 2005.

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Library's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance Reserves

The Library reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

Washington County Public Library
Washington County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (Continued)

N. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 – Change in Basis of Accounting and Restatement of Fund Equity

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 with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type. This presentation is in accordance with GASB Statement Number 34, as applicable to modified-cash statements.

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 Cash Basis 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 differences between the budgetary basis and the modified cash basis are 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 \$82,255 for the General Fund.

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.

Washington County Public Library
Washington County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 5 – Deposits and Investments (Continued)

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;
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.

At year end, the Library had \$809 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

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, \$482,781 of the Library's bank balance of \$685,394 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.

Washington County Public Library
Washington County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 5 – Deposits and Investments (Continued)

Investments

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

	<u>Carrying Value</u>	<u>Maturity</u>
STAROhio	\$601,320	Average

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Library's investment policy addresses interest rate risk by requiring that the Library's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

STAROhio carries a rating of AAAM by Standard and Poor's. The Library has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library has no investment policy dealing with investment custodial risk beyond the requirements in Ohio Rev. Code Section 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

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 contracted with several companies for various types of insurance coverage as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Westfield Companies	Commercial Property	\$5,830,200
	General Liability	\$1,000,000
	Inland Marine	\$5,848,995
	Vehicle	\$500,000
France & Associates	Errors and Omissions	\$2,000,000
Ohio Casualty	Clerk-Treasurer/Asst. Clerk-Treasurer	\$20,000/\$10,000
	Employee Dishonesty	\$25,000

Settled claims have not exceeded coverage in any of the last three years and there was no significant reduction in coverage from the prior year.

The Library pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The System administers and pays all claims.

Washington County Public Library
Washington County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 7 – Defined Benefit Pension Plan

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 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, 2004, 2003 were \$150,066, \$151,154, and \$147,659, respectively. One hundred percent has been contributed for 2005, 2004 and 2003.

Note 8 – Postemployment Benefits

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4 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.

Washington County Public Library
Washington County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 8 – Postemployment Benefits (Continued)

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 \$58,248. 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 – Interfund Transfers

The General Fund transferred \$350,000 to the Capital Fund for the purchase and maintenance of various items throughout the Library.

Note 10 – Contingent Liabilities

The Library is the defendant in a lawsuit. Although management cannot presently determine the outcome of this suit, they believe the resolution of this matter will not materially adversely affect the Library's financial condition.

Note 11 – Jointly Governed Organizations

The Southeastern Ohio Library Organization (SOLO) is a regional library system created and jointly governed according to the provisions of the Ohio Revised 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, Perry County District Library, Public Library of Steubenville and Jefferson County, Puskarich Public Library, Newark Public Library, St. Clairsville Public Library, and Washington County Public Library. SOLO is governed by a thirteen member Board of Trustees selected by the member libraries which consists of the library administrator or representative from each member library. SOLO provides annual training workshops for member library employees, technical training and assistance and a central graphic center. The Washington County Public Library's control over budgeting and financing of SOLO is limited to its voting authority and its representation on SOLO's Board of Trustees.

Note 12– Related Party Transactions

The Library pays an annual fee to SOLO, a jointly governed organization, of which the Library was a member. On July 14, 2005, the Library paid \$3,500 in dues for fiscal year 2005.



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

Washington County Public Library
Washington County
615 Fifth Street
Marietta, Ohio 45750

To the Board of Trustees:

We have audited the financial statements of the governmental activities and each major fund of the Washington County Public Library, Washington 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 29, 2006, wherein we noted the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standards Board Statement No. 34 and wherein we qualified our report on payroll disbursements from July 1, 2005 through December 31, 2005, reported within the General Fund, because certain information related to the payroll disbursements was not available for audit. Except as discussed in the preceding sentence, 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 opinion on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2005-001.

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 basic financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered material weaknesses. We considered reportable condition 2005-001 listed above to be a material weakness.

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

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*.

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



Betty Montgomery
Auditor of State

June 29, 2006

WASHINGTON COUNTY PUBLIC LIBRARY
WASHINGTON COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2005-001

Material Weakness – Lack of SAS-70 Report

Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS No. 70 should provide the Library with reasonable assurance that payroll is being processed in conformance with the contract. As an alternative, the Library may request an independent auditor perform agreed-upon procedures at the service organization to gain assurance over payroll processing.

The Library has delegated its payroll processing, which is a significant accounting function, to a third-party administrator. As of July 1, 2005, the Library changed to a different third-party administrator. Although the Library has established limited monitoring controls, these procedures are not adequate to determine whether the service organization has sufficient controls in place that are operating effectively to reduce the risk that payroll from July 1, 2005 through December 31, 2005, has been completely and accurately processed in accordance with the contract.

The Library should assure the completeness and accuracy of payroll processing by its third-party administrator. Failure to obtain assurance through a Type Two SAS No. 70 report or agreed-upon procedures will result in a qualified opinion.

We recommend the Library specify in its contract with the third-party administrator that an annual Type Two SAS No. 70 Report be obtained or agreed-upon procedures be performed. The Library should be provided a copy of the respective report timely and should review the report's content. The SAS 70 report or agreed-upon procedures should be conducted in accordance with the American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If the third-party administrator refuses to provide a Type Two SAS 70 report or agreed-upon procedures, we recommend the Library only contract with a third-party administrator that will provide such a report.

Official's Response:

Corporate Payroll Inc. is in the process of a SAS 70 audit and expects to complete the audit by the end of the year. Management is reviewing payroll processing alternatives.



**Auditor of State
Betty Montgomery**

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WASHINGTON COUNTY PUBLIC LIBRARY

WASHINGTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 15, 2006**