



Mary Taylor, CPA
Auditor of State

CLEVELAND PUBLIC LIBRARY
CUYAHOGA COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Cleveland Public Library
Cuyahoga County
325 Superior Avenue
Cleveland, Ohio 44114

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Cleveland Public Library, Cuyahoga County, Ohio, (the Library) as of and for the year ended December 31, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Cleveland Public Library, Cuyahoga County, Ohio, as of December 31, 2006, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2007, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

July 31, 2007

Cleveland Public Library
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The Discussion and Analysis of the Cleveland Public Library's (the "Library") financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the Library's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the Library's financial performance.

Financial Highlights

Key financial highlights for 2006 are:

Total assets increased by \$6,170,160 or 2.79 percent increase over 2005.

Total liabilities increased by \$2,828,202 or 6.37 percent increase over 2005.

Total net assets increased by \$3,341,958 or 1.89 percent increase over 2005.

Total capital assets decreased \$2,848,641 or 2.58 percent decrease from 2005.

Total outstanding long-term liabilities increased \$280,594 over 2005, an increase of 5.76 percent.

Using These Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the Cleveland Public Library as a financial whole or as an entire operating entity. The statements proceed to provide an increasingly detailed look at our specific financial condition.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the Library's most significant funds with all other non-major funds presented in total in one column.

Reporting the Library as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the Library to provide services to our citizens, the view of the Library as a whole looks at all financial transactions and asks the question, "How did the Library do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The accrual basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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These two statements report the Library's net assets and the changes in those assets. The change in net assets is important because it tells the reader whether, for the Library as a whole, the financial position of the Library has improved or diminished. However, in evaluating the overall position of the Library, non-financial information such as changes in the Library's tax base and the condition of the Library's capital assets will also need to be evaluated. The Statement of Net Assets and the Statement of Activities are divided into the following categories:

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Revenue and Expenses
- General Revenues
- Net Assets Beginning of Year and Year's End

Reporting the Cleveland Public Library's Most Significant Fund

Fund Financial Statements

The presentation of the Library's major fund begins on page 13. Fund financial reports provide detailed information about the Library's major fund based on the restrictions on the use of monies. The Library has established many funds that account for the multitude of services and facilities provided for our patrons. However, these fund financial statements focus on the Library's most significant fund. In the case of the Library, the major fund is the General Fund.

Government Funds

All of the Library's activities are reported in the governmental funds that focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Library's general operations and the basic services it provides. Government fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The Library as a Whole

The Statement of Net Assets looks at the Library as a whole. Table 1 provides a summary of the Library's net assets for 2006 compared to 2005.

Cleveland Public Library
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Table 1
Net Assets

| | Governmental Activities | | |
|-------------------------------|-------------------------|------------------------|--------------------|
| | 2006 | 2005 | Change |
| Assets | | | |
| Current and Other Assets | \$119,917,819 | \$110,899,018 | \$9,018,801 |
| Capital Assets, Net | <u>107,407,431</u> | <u>110,256,072</u> * | <u>(2,848,641)</u> |
| <i>Total Assets</i> | <u>227,325,250</u> | <u>221,155,090</u> * | <u>6,170,160</u> |
| Liabilities | | | |
| Current and Other Liabilities | 42,070,025 | 39,522,417 | 2,547,608 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 493,775 | 627,049 | (133,274) |
| Due In More Than One Year | <u>4,655,575</u> | <u>4,241,707</u> | <u>413,868</u> |
| <i>Total Liabilities</i> | <u>47,219,375</u> | <u>44,391,173</u> | <u>2,828,202</u> |
| Net Assets | | | |
| Invested in Capital Assets | | | |
| Net of Related Debt | 107,407,431 | 110,256,072 * | (2,848,641) |
| Restricted for: | | | |
| Endowments - Expendable | 2,359,941 | 2,156,866 | 203,075 |
| Endowments - Nonexpendable | 717,036 | 680,536 | 36,500 |
| Capital Projects | 10,040,782 | 8,891,602 | 1,149,180 |
| Other Purposes | 11,735,141 | 10,914,374 | 820,767 |
| Unrestricted | <u>47,845,544</u> | <u>43,864,467</u> | <u>3,981,077</u> |
| <i>Total Net Assets</i> | <u>\$180,105,875</u> | <u>\$176,763,917</u> * | <u>\$3,341,958</u> |

*See Note 10

The increase in current and other assets is due primarily to the increased property tax collections continuing during 2006 from the 5-year voter-approved May, 2003 increase in property tax millage. Retention of those monies for the latter years of this 5-year levy cycle has allowed for higher investment balances and along with improving market yield, has resulted in increased investment earnings of slightly over \$1 million dollars. The increased property tax receivable is due to increased delinquencies. The capital assets decrease is due primarily to annual depreciation of assets. The current and other liabilities increase is primarily due to vendor payables, accrued wages and benefits, and deferred revenue being higher at December 31, 2006 than at December 31, 2005.

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Table 2 shows the changes in net assets for the years ended December 31, 2006 and December 31, 2005.

Table 2
Changes in Net Assets

| | Governmental Activities 2006 | Governmental Activities 2005 | Change |
|--|------------------------------------|------------------------------------|----------------------|
| Revenues | | | |
| Program Revenues: | | | |
| Charges for Services | \$3,406,029 | \$3,426,426 | \$(20,397) |
| Operating Grants, Contributions and Investment Earnings | 2,213,171 | 1,562,486 | 650,685 |
| <i>Total Program Revenues</i> | <u>5,619,200</u> | <u>4,988,912</u> | <u>630,288</u> |
| General Revenues: | | | |
| Property Taxes | 32,832,728 | 32,243,200 | 589,528 |
| Grants and Entitlements | 31,309,983 | 31,681,147 | (371,164) |
| Investment Earnings | 2,090,227 | 1,019,737 | 1,070,490 |
| Gain on Sale of Capital Assets | 327 | | 327 |
| Miscellaneous | 234,573 | 73,334 | 161,239 |
| <i>Total General Revenues</i> | <u>66,467,838</u> | <u>65,017,418</u> | <u>1,450,420</u> |
| <i>Total Revenues</i> | <u>72,087,038</u> | <u>70,006,330</u> | <u>2,080,708</u> |
| Program Expenses | | | |
| Administration and Support | 25,424,556 | 22,418,408 | 3,006,148 |
| Public Services | 43,320,524 | 42,096,074 | * 1,224,450 |
| <i>Total Expenses</i> | <u>68,745,080</u> | <u>64,514,482</u> | <u>4,230,598</u> |
| <i>Increase (Decrease) in Net Assets</i> | 3,341,958 | 5,491,848 | (2,149,890) |
| <i>Net Assets January 1</i> | <u>176,763,917</u> | * <u>171,272,069</u> | <u>5,491,848</u> |
| <i>Net Assets December 31</i> | <u>\$180,105,875</u> | <u>\$176,763,917</u> | <u>* \$3,341,958</u> |

*See Note 10

Cleveland Public Library
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GOVERNMENTAL ACTIVITIES

For the most part, administrative and support expenses are underwritten by the general revenues of the Library rather than program revenues except for the usage and processing fees received by Cleveland Public Library for automated library services provided to the 30 contracting CLEVNET libraries spread over nine counties in northern Ohio. Like the administrative and support expenses, the public services expenses are also mainly supported by the general revenues of the Library. However, the Library has been successful in being awarded a number of grants and also uses the investment earnings received from endowments to help support the free and equitable access to programming and services.

General revenues from property taxes increased by \$589,528 during 2006. General revenues of grants and entitlements decreased by \$371,164 during 2006 under 2005 due primarily to a decrease in the Library and Local Government Support Fund revenues.

Table 3 presents a summary for governmental activities, the total cost of services and the net cost of providing these services for the years ending December 31, 2006 and December 31, 2005. The total cost of services associated with public services in 2006 is 63.02 percent of total costs, slightly below 2005's 65.25 percent.

Table 3
Governmental Activities

| | Total Cost of Services 2006 | Net Cost of Services 2006 | Total Cost of Services 2005 | Net Cost of Services 2005 |
|----------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Administration and Support | \$25,424,556 | (\$21,997,152) | \$22,418,408 | (\$19,114,020) |
| Public Services | <u>43,320,524</u> | <u>(41,128,401)</u> | <u>42,096,074 *</u> | <u>(40,411,550)</u> |
| <i>Total</i> | <u><u>\$68,745,080</u></u> | <u><u>(\$63,125,553)</u></u> | <u><u>\$64,514,482</u></u> | <u><u>(\$59,525,570)</u></u> |

*See Note 10

The Library's Funds

Information about the Library's governmental funds begins on page 13. These funds are accounted for by using the modified accrual basis of accounting. All governmental funds had total revenues of \$71,701,223 and expenditures of \$65,615,944. The most significant fund is the general fund, which had an unreserved fund balance at year-end of \$29,545,526 compared to annual expenditures of \$62,612,295. The net change in general fund balance for 2006 of a \$3,876,183 increase was the result of collecting revenues at a higher level than appropriated for expenditure, in an effort to preserve fund balance to cover future increasing expenditures during the latter years of the 5-year levy cycle. General fund revenues of intergovernmental increased in 2006 by approximately \$471,000 over 2005 and investment earnings increased by slightly over \$1 million dollars during 2006 over 2005.

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General Fund Budgeting Highlights

The Library's budget is prepared according to provisions of the Ohio Administrative Code based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2006, the Library amended its general fund budget. The original budgeted revenues were \$65,773,831 and the final budgeted amount was \$66,773,831. Of this \$1,000,000 increase, most was due to increased intergovernmental and investment income projections. Since the original appropriations were not increased nor decreased during the year, the Library maintained a respectable level of liquidity in the General Fund by maintaining unencumbered cash at year-end of 35.32 percent of those revenues.

Capital Assets

Table 4
Capital Assets
(Net of Depreciation)

| | Governmental Activities | |
|--------------------------|-------------------------|----------------------|
| | 2006 | 2005 |
| Land | \$2,701,082 | \$2,680,202 |
| Construction in Progress | 568,627 | 124,334 * |
| Buildings/Improvements | 102,427,000 | 106,014,791 |
| Furniture/Equipment | 438,104 | 243,422 |
| Computers | 1,139,308 | 1,086,278 |
| Vehicles | 133,310 | 107,045 |
| <i>Total</i> | <i>\$107,407,431</i> | <i>\$110,256,072</i> |

*See Note 10

Total capital assets for the Library as of December 31, 2006 were \$107,407,431, a decrease of \$2,848,641 from 2005. The most significant decrease in capital assets came in the area of buildings and improvements of \$3,587,791. This was due to the annual depreciation on existing buildings. See Note 10 for additional information on capital assets.

Current Financial Related Activities

The Cleveland Public Library, “The People’s University,” celebrated its 137th year in 2006 and we are very proud of the accomplishments that have taken place over those years. The Library’s Main Library is situated on Lake Erie in the heart of Cleveland, Ohio. The Library’s 28 branches and the Mobile Library reflect the Library’s priority: global information in strategically convenient neighborhood locations.

The Cleveland Public Library remains financially stable. However, over the past few years, the Library has had to deal with uncertainty in Library and Local Government Support Fund revenues since 2001 when the “freeze” and lower percentage share was initiated by the State Legislature. These lower revenues were initially countered with a hiring freeze and other budget cuts, including reductions in capital expenditures, library service materials, and reduced professional education funding. To offset this detrimental effect on public service, to restore and enhance neighborhood services and other public-defined initiatives, the Library’s voting district approved a 5-year increase in property tax in May, 2003, which began collection in January, 2004 and ends December, 2008.

Cleveland Public Library
Cuyahoga County
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The Library's finances are planned so that many of the facilities' improvements and capital acquisitions are paid with cash and the Library continues to pay cash for all equipment and other major purchases necessary to maintain a high level of services. We live within our means and plan ahead knowing that responsible leadership commands that we observe the budget and expend less than the revenues we receive. We have kept the size of our work force to a level where we believe we meet the needs of our patrons.

The voters of the Cleveland Municipal School District, the Library's taxing district, approved on May 6, 2003 an increase in property tax millage from an expiring 3 mills to 5.8 mills for a five year period commencing collection in 2004 for the operation and improvement of the Cleveland Public Library. As custodians of the public's trust, the people committed us on May 6th to ensuring that our libraries enrich our neighborhoods via effectively implementing five library service enhancements:

Saturday hours year-round in neighborhood branches

More services for our children and young adults

New and improved services for our senior citizens

More computers and computer training to help our families without computers in their homes and businesses

Services for the Hispanic community and new Americans

In response to this commitment during 2004, for the first time since 1960, Cleveland Public Library opened neighborhood branches on Saturdays during the summer months by adding 153 hours at 18 neighborhood branches to our open schedule. In 2005, the Library extended hours at eight more branches to make their hours the same as those with the previous extended schedules, adding 150 additional hours to the schedule. As of September 2006, for the first time in over 40 years, 26 neighborhood branch libraries have Saturday openings and uniform open hours year-round.

Additional librarians have been added in our branches' staffing to offer more services, particularly for children and young adults. The mobile library services have expanded to more senior centers and more programming for seniors has been added. The Library has hired 52 new paraprofessional computer aides who offer one-on-one computer training and classes, installed 4 new computer kiosks at neighborhood community centers and added more computer training classes at all 28 branches and at Main Library. This includes computer training in Russian, Chinese, Spanish and Arabic. The library has developed special computer classes for seniors through SeniorsConnect.org. As of 2006, all 28 branches and Main Library have adaptive equipment for patrons with age related limitations. Numerous programs and new staff have been added to address the needs of the Hispanic community and Cleveland's diverse new Americans' communities as well as a wide range of literacy needs for the entire service area.

Our commitment to our patrons has always been one of full disclosure of the financial position of the Library. We make available this report to all patrons who wish to review it. We also have a publication titled *Speaking Volumes*, a library newsletter that is mailed four times per year.

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Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Contacting the Library's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the Library's finances and show the Library's accountability for all money it receives, spends or invests. If you have any questions about this report or need financial information, contact the Finance Administrator, Joan Tomkins, Cleveland Public Library, 325 Superior Avenue, Cleveland, Ohio 44114, telephone 216-623-2843. We also offer information regarding our Library on our website, which is at www.cpl.org.

Cleveland Public Library
Cuyahoga County
Statement of Net Assets
December 31, 2006

| | Governmental Activities |
|--|----------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$55,423,293 |
| Accrued Interest Receivable | 275,994 |
| Accounts Receivable | 245,215 |
| Intergovernmental Receivable | 16,833,327 |
| Materials and Supplies Inventory | 293,355 |
| Prepaid Items | 662,223 |
| Property Taxes Receivable | 46,184,412 |
| Nondepreciable Capital Assets | 3,269,709 |
| Depreciable Capital Assets, Net | 104,137,722 |
| <i>Total Assets</i> | 227,325,250 |
| Liabilities | |
| Accounts Payable | 1,324,669 |
| Accrued Wages and Benefits | 1,135,402 |
| Matured Compensated Absences Payable | 45,143 |
| Intergovernmental Payable | 379,519 |
| Deferred Revenue | 39,185,292 |
| Long-Term Liabilities: | |
| Due Within One Year | 493,775 |
| Due In More Than One Year | 4,655,575 |
| <i>Total Liabilities</i> | 47,219,375 |
| Net Assets | |
| Invested in Capital Assets | 107,407,431 |
| Restricted for: | |
| Endowments--Expendable | 2,359,941 |
| Endowments--Non-Expendable | 717,036 |
| Capital Projects | 10,040,782 |
| Founders for Programming | 4,800,906 |
| Young for the Blind | 2,967,286 |
| Endowment for the Blind | 1,580,597 |
| Wickwire for the Blind | 1,230,694 |
| Other Purposes | 1,155,658 |
| Unrestricted | 47,845,544 |
| <i>Total Net Assets</i> | \$180,105,875 |

See accompanying notes to the basic financial statements

Cleveland Public Library
Cuyahoga County
Statement of Activities
For the Year Ended December 31, 2006

| | Program Revenues | | | Net (Expense) and Changes in Net Assets |
|--------------------------------|------------------|---------------------------|---|---|
| | Expenses | Charges for Services | Operating Grants, Contributions and Investment Earnings | Governmental Activities |
| Governmental Activities | | | | |
| Administration and Support | \$25,424,556 | \$3,018,155 | \$408,922 | (\$21,997,479) |
| Public Services | 43,320,524 | 387,874 | 1,804,249 | (41,128,401) |
| <i>Totals</i> | \$68,745,080 | \$3,406,029 | \$2,213,171 | (63,125,880) |
| | | General Revenues | | |
| | | Property Taxes Levied for | | |
| | | | | General Purposes 32,832,728 |
| | | | | Grants and Entitlements not Restricted |
| | | | | to Specific Programs 31,309,983 |
| | | | | Investment Earnings 2,090,227 |
| | | | | Gain on Sale of Capital Assets 327 |
| | | | | Miscellaneous 234,573 |
| | | | | <i>Total General Revenues</i> 66,467,838 |
| | | | | <i>Change in Net Assets</i> 3,341,958 |
| | | | | <i>Net Assets Beginning of Year - See Note 10</i> 176,763,917 |
| | | | | <i>Net Assets End of Year</i> \$180,105,875 |

See accompanying notes to the basic financial statements

Cleveland Public Library
Cuyahoga County
Balance Sheet
Governmental Funds
December 31, 2006

| | General | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------------|--------------------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$30,415,375 | \$25,007,918 | \$55,423,293 |
| Accrued Interest Receivable | 275,994 | 0 | 275,994 |
| Accounts Receivable | 245,215 | 0 | 245,215 |
| Intergovernmental Receivable | 16,796,467 | 36,860 | 16,833,327 |
| Interfund Receivable | 90,000 | 0 | 90,000 |
| Materials and Supplies Inventory | 293,355 | 0 | 293,355 |
| Prepaid Items | 662,223 | 0 | 662,223 |
| Property Taxes Receivable | 46,184,412 | 0 | 46,184,412 |
| <i>Total Assets</i> | <u>\$94,963,041</u> | <u>\$25,044,778</u> | <u>\$120,007,819</u> |
| | | | |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts Payable | \$1,222,791 | \$101,878 | \$1,324,669 |
| Accrued Wages and Benefits | 1,135,402 | 0 | 1,135,402 |
| Matured Compensated Absences Payable | 45,143 | 0 | 45,143 |
| Interfund Payable | 0 | 90,000 | 90,000 |
| Intergovernmental Payable | 379,519 | 0 | 379,519 |
| Deferred Revenue | 58,494,695 | 0 | 58,494,695 |
| <i>Total Liabilities</i> | <u>61,277,550</u> | <u>191,878</u> | <u>61,469,428</u> |
| | | | |
| Fund Balances | | | |
| Reserved for Encumbrances | 4,139,965 | 631,366 | 4,771,331 |
| Reserved for Endowments | 0 | 717,036 | 717,036 |
| Unreserved, Undesignated, Reported in: | | | |
| General Fund | 29,545,526 | 0 | 29,545,526 |
| Special Revenue Funds | 0 | 11,490,007 | 11,490,007 |
| Capital Projects Fund | 0 | 9,674,072 | 9,674,072 |
| Permanent Funds | 0 | 2,340,419 | 2,340,419 |
| <i>Total Fund Balances</i> | <u>33,685,491</u> | <u>24,852,900</u> | <u>58,538,391</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$94,963,041</u> | <u>\$25,044,778</u> | <u>\$120,007,819</u> |

See accompanying notes to the basic financial statements

Cleveland Public Library
Cuyahoga County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2006

| | |
|--|-----------------------------|
| Total Governmental Funds Balances | \$58,538,391 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because</i> | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 107,407,431 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are not deferred in the funds. | |
| Delinquent Property Taxes | 9,239,829 |
| Intergovernmental | <u>10,069,574</u> |
| Total | 19,309,403 |
| Compensated absences payable are not due and payable in the current period and therefore are not reported in the funds. | <u>(5,149,350)</u> |
| <i>Net Assets of Governmental Activities</i> | <u><u>\$180,105,875</u></u> |

Cleveland Public Library
Cuyahoga County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

| | General | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------------|--------------------------------|
| Revenues | | | |
| Property Taxes | \$31,733,573 | \$0 | \$31,733,573 |
| Charges for Services | 3,018,155 | 0 | 3,018,155 |
| Fines and Fees | 387,874 | 0 | 387,874 |
| Intergovernmental | 32,023,650 | 129,572 | 32,153,222 |
| Donations | 0 | 895,109 | 895,109 |
| Investment Earnings | 2,090,227 | 1,188,490 | 3,278,717 |
| Miscellaneous | 234,573 | 0 | 234,573 |
| <i>Total Revenues</i> | <u>69,488,052</u> | <u>2,213,171</u> | <u>71,701,223</u> |
| Expenditures | | | |
| Current: | | | |
| Administration and Support | 24,000,248 | 79,839 | 24,080,087 |
| Public Services | 38,178,625 | 1,009,896 | 39,188,521 |
| Capital Outlay | 433,422 | 1,913,914 | 2,347,336 |
| <i>Total Expenditures</i> | <u>62,612,295</u> | <u>3,003,649</u> | <u>65,615,944</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>6,875,757</u> | <u>(790,478)</u> | <u>6,085,279</u> |
| Other Financing Sources (Uses) | | | |
| Sale of Capital Assets | 426 | 0 | 426 |
| Transfers In | 0 | 3,000,000 | 3,000,000 |
| Transfers Out | (3,000,000) | 0 | (3,000,000) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(2,999,574)</u> | <u>3,000,000</u> | <u>426</u> |
| <i>Net Change in Fund Balances</i> | 3,876,183 | 2,209,522 | 6,085,705 |
| <i>Fund Balances Beginning of Year</i> | <u>29,809,308</u> | <u>22,643,378</u> | <u>52,452,686</u> |
| <i>Fund Balances End of Year</i> | <u>\$33,685,491</u> | <u>\$24,852,900</u> | <u>\$58,538,391</u> |

See accompanying notes to the basic financial statements

Cleveland Public Library

Cuyahoga County

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2006*

Net Change in Fund Balances - Total Governmental Funds \$6,085,705

*Amounts reported for governmental activities in the
statement of activities are different because*

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

| | |
|---------------------------|--------------------|
| Capital Asset Additions | 1,338,665 |
| Current Year Depreciation | <u>(4,187,207)</u> |

Total (2,848,542)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (99)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the statement of revenues, expenditures and changes in fund balances.

| | |
|---------------------------|------------------|
| Delinquent Property Taxes | 1,099,155 |
| Intergovernmental | <u>(713,667)</u> |

Total 385,488

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances. (280,594)

Change in Net Assets of Governmental Activities \$3,341,958

Cleveland Public Library
Cuyahoga County
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2006

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| Property Taxes | \$30,830,801 | \$30,830,801 | \$31,733,573 | \$902,772 |
| Charges for Services | 2,955,000 | 2,955,000 | 2,886,536 | (68,464) |
| Fines and Fees | 350,000 | 350,000 | 388,434 | 38,434 |
| Intergovernmental | 31,293,030 | 31,543,030 | 32,045,760 | 502,730 |
| Investment Earnings | 300,000 | 1,050,000 | 1,906,583 | 856,583 |
| Miscellaneous | 45,000 | 45,000 | 167,151 | 122,151 |
| <i>Total Revenues</i> | <u>65,773,831</u> | <u>66,773,831</u> | <u>69,128,037</u> | <u>2,354,206</u> |
| Expenditures | | | | |
| Current: | | | | |
| Administration and Support | 28,503,566 | 28,503,566 | 25,602,375 | 2,901,191 |
| Public Services | 41,514,616 | 41,514,616 | 40,860,779 | 653,837 |
| Capital Outlay | 763,269 | 763,269 | 557,231 | 206,038 |
| <i>Total Expenditures</i> | <u>70,781,451</u> | <u>70,781,451</u> | <u>67,020,385</u> | <u>3,761,066</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(5,007,620)</u> | <u>(4,007,620)</u> | <u>2,107,652</u> | <u>6,115,272</u> |
| Other Financing Sources (Uses) | | | | |
| Advances In | 0 | 0 | 65,000 | 65,000 |
| Advances Out | 0 | 0 | (90,000) | (90,000) |
| Transfers Out | (3,000,000) | (3,000,000) | (3,000,000) | 0 |
| Sale of Capital Assets | 0 | 0 | 426 | 426 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(3,000,000)</u> | <u>(3,000,000)</u> | <u>(3,024,574)</u> | <u>(24,574)</u> |
| <i>Net Change in Fund Balance</i> | <u>(8,007,620)</u> | <u>(7,007,620)</u> | <u>(916,922)</u> | <u>6,090,698</u> |
| <i>Fund Balance Beginning of Year</i> | 19,859,331 | 19,859,331 | 19,859,331 | 0 |
| Prior Year Encumbrances Appropriated | <u>5,476,935</u> | <u>5,476,935</u> | <u>5,476,935</u> | <u>0</u> |
| <i>Fund Balance End of Year</i> | <u>\$17,328,646</u> | <u>\$18,328,646</u> | <u>\$24,419,344</u> | <u>\$6,090,698</u> |

See accompanying notes to the basic financial statements

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Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2006

Note 1 – Description of Library and Reporting Entity

The Cleveland Public Library (the "Library") is organized as a school district public library under the laws of the State of Ohio. The Library has its own Board of Library Trustees of seven members who are appointed by the Cleveland Board of Education. 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 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 Cleveland Board of Education, although the Cleveland Board of Education serves in a ministerial capacity as the taxing authority for the Library. The determination to request approval of a tax levy and 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 Cleveland Board of Education 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 Cleveland Board of Education.

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 the Board of Education. Management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles (GAAP). Based upon the application of these criteria, management does not believe the Library has any potential component unit that should be included as part of the Library's reporting entity.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Library have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Library also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more 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.

The statement of net assets presents the financial condition of the governmental activities of the Library at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2006

a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Program revenues also include interest earned on grants and endowments that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Library, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

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. All of the Library's funds are classified as governmental.

Governmental Funds Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Library's major governmental fund:

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 provisions of the Ohio Revised Code.

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Library are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2006

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Library, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which the Library receives value without directly giving equal value in return, include property taxes, Library and Local Government Support Fund payments (LLGSF), grants, entitlements and donations. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Library must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Library on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: interest, grants, entitlements and rentals.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2006

E. Cash and Cash Equivalents

To improve cash management, cash received by the Library is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Library records. Interest in the pool is presented as “equity in pooled cash and cash equivalents”.

STAROhio is an investment pool managed by the State Treasurer’s Office that allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price that is the price the investment could be sold for on December 31, 2006.

Interest and dividends earned on all funds when the use of such earnings are not restricted by law are recorded in the General Fund except investment earnings attributable to endowment fund balances which are recorded in the endowment funds, a subset of funds classified as either Special Revenue Funds or Permanent Funds. Investment earnings credited to the endowment funds during 2006 amounted to \$1,188,490.

Investments are reported at fair market value, which is based on quoted market prices with the exception of non-participating investment contracts. Non-participating investment contracts such as repurchase agreements are reported at cost. Gains (or losses) to fair market value are booked annually as “Investment Earnings”.

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.

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets

The Library’s only capital assets are general capital assets. General capital assets are capital assets that are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Library maintains capitalization thresholds as displayed in the following table. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2006

| <u>Description</u> | <u>Capitalization Thresholds</u> |
|--------------------------|--|
| Land | All Land Acquisitions |
| Construction in Progress | All Major Projects Not Completed By Year-end |
| Buildings/Improvements | \$100,000 |
| Movable Assets | \$ 5,000 |

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| | |
|------------------------|----------|
| Buildings/Improvements | 40 Years |
| Furniture/Equipment | 5 Years |
| Computers | 5 Years |
| Vehicles | 5 Years |

I. Inexhaustible Collections and Books

Collections (works of art and historical artifacts, for example) meet the definition of a capital asset and normally should be reported in the financial statements. GASB Statement No. 34 does not require capitalization of collections that meet all of the following criteria: 1) the collection is held for reasons other than financial gain, 2) the collection is protected, kept unencumbered, cared for, and preserved, and 3) the collection is subject to an organizational policy requiring that the proceeds from sales of collection items be used to acquire other items for the collections. Because the Library's inexhaustible collections, including research books and other rare library materials, meet the above requirements, the Library has not capitalized them. Other library materials used in the circulating collections have not been capitalized because their estimated useful lives or values are less than the Library's capitalization threshold.

J. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund balance amounts are eliminated in the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The Library records a liability for all accumulated unused vacation time when earned for all employees. Accumulated but unused vacation time will be paid for upon termination of employment, provided the employee has worked six months or more.

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the Library's past experience of making termination payments. The amount is based on accumulated sick leave and employee wage rates at year-end, taking into consideration any limits specified in the Library's termination policy. The Library's termination policy currently allows for payment of one-half of unused sick hours at time of retirement as governed by the provisions of the Ohio Public Employees Retirement System. The Library's termination policy further allows for additional amounts of unused sick hours to be paid for years of service exceeding 25 years.

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2006

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full, from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

M. Fund Balance Reserves

The Library reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances and non-expendable endowments.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include funds for grant-designated activities and specific library collections.

The Library applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods 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 expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Library Administration and that are either unusual in nature or infrequent in occurrence.

Q. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2006

R. Budgetary Data

All funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Trustees may appropriate. The appropriations resolution is the Trustees' authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Trustees. The primary level of control has been established at the character or major category of the object code for the general fund. For all other funds, the primary level of control has been established at the fund level. Budgetary modifications at the legal level of control may only be made by resolution of the Board of Library Trustees.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Clerk Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time the final appropriations were enacted by the Trustees.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Trustees during the year.

Note 3 – Changes in Accounting Principles

For 2006, the Library has implemented GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 47 established standards of accounting and financial reporting for termination benefits.

The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the Library.

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budgetary basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2006

3. Encumbrances are treated as expenditures (budgetary) rather than as a reservation of fund balance (GAAP).
4. Unrecorded cash represents amounts expended but not included as expenditures on the budgetary basis operating statement. These amounts are included as expenditures on the GAAP basis operating statements.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

| | General |
|---|-------------|
| GAAP Basis | \$3,876,183 |
| Net Adjustment for Revenue Accruals | (507,086) |
| Unrecorded Cash - End of Year | 147,071 |
| Advance In | 65,000 |
| Advance Out | (90,000) |
| Net Adjustment for Expenditure Accruals | 1,406,514 |
| Current Year Encumbrances | (5,814,604) |
| Budgetary Basis | (\$916,922) |

Note 5 – Deposits and Investments

State statutes classify public deposits held by the Library into three categories.

Active deposits are public deposits necessary to meet current demands on the 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 Trustees have 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. A list of permissible investments for interim deposits follows.

Protection of the Library's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2006

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities 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 that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit or by savings or deposit account, including, but not limited to, passbook accounts;
5. Bonds and other obligation of the State of Ohio;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section 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);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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 Clerk Treasurer or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

The Library, a fiduciary, having monies belonging to a trust which are to be invested, may invest those monies, except as otherwise provided by law or by the instrument creating the trust, in the following:

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2006

1. Bonds or other obligations of the United States or the State of Ohio;
2. Bonds or other interest-bearing obligations of any county, municipal corporation, school district, or other legally constituted political taxing subdivision within the State provided that the subdivision has not defaulted in the payment of the interest on any of its bonds or interest-bearing obligations for more than 120 days during the ten years immediately preceding the investment and provided that the subdivision is not, at the time of investment, in default in the payment of principal or interest on any of its bonds or other interest-bearing obligations;
3. Bonds or other interest-bearing obligations of any other state of the United States, which within 20 years prior to the making of such investment, has not defaulted for more than 90 days in the payment of principal or interest on any of its bonds or other interest-bearing obligations;
4. Any bonds issued by or for federal land banks and any debentures issued by or for federal intermediate credit banks under the "Federal Farm Loan Act of 1916 or any debentures issued by or for banks for cooperatives under the "Farm Credit Act of 1933";
5. Notes which are: (a) secured by a first mortgage on real estate held in fee and located in the State, improved by a unit designed principally for residential use for not more than four families or by a combination of such dwelling units and business property, the area designed or used for nonresidential purposes not to exceed 50 percent of the total floor area; (b) secured by a first mortgage on real estate held in fee and located in the State, improved with a building designed for residential use for more than four families or with a building used primarily for business purposes, if the unpaid principal of the notes secured by such mortgage does not exceed ten percent of the value of the estate or trust or does not exceed \$5,000, whichever is greater; or (c) secured by a first mortgage on an improved farm held in fee and located in the State, provided that such mortgage requires that the buildings on the mortgaged property shall be well insured against loss by fire, and so kept, for the benefit of the mortgagee, until the debt is paid, and provided that the unpaid principal of the notes secured by the mortgage shall not exceed 50 percent of the fair value of the mortgaged real estate at the time the investment is made; except that the unpaid principal of the notes may equal 60 percent of the fair value of the mortgaged real estate at the time the investment is made, and may be payable over a period of 15 years following the date of the investment by the fiduciary if regular installment payments are required sufficient to amortize four percent or more of the principal of the outstanding notes per annum and if the unpaid principal and interest become due and payable at the option of the holder upon any default in the payment of any installment of interest or principal upon the notes, or of taxes, assessments, or insurance premiums upon the mortgaged premises or upon the failure to cure any such default within any grace period provided therein not exceeding 90 days in duration;
6. Life, endowment, or annuity contracts of legal reserve life insurance companies and licensed by the superintendent of insurance to transact business within the State provided that the purchase of contracts authorized by this division shall be limited to executors or the successors to their power when specifically authorized by will and to guardians and trustees, which contracts may be issued on the life of a ward, a beneficiary of a trust fund, or according to a will, or upon the life of a person in whom such ward or beneficiary has an insurable interest and the contracts shall be drawn by the insuring company so that the proceeds shall be the sole property of the person whose funds are so invested;

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7. Notes or bonds secured by mortgages and insured by the federal housing administrator or debentures issued by such administrator;
8. Obligations issued by a federal home loan bank created under the “Federal Home Loan Bank Act of 1932”;
9. Shares and certificates or other evidences of deposits issued by a federal savings and loan association organized and incorporated under the “Home Owners’ Loan Act of 1933’ to the extent and only to the extent that those shares or certificates or other evidences of deposits are insured pursuant to the “Financial Institutions Reform, Recovery, and Enforcement Act of 1989”;
10. Bonds issued by the home owners’ loan corporation created under the “Home Owners’ Act of 1933”;
11. Obligations issued by the national mortgage association created under the “National Housing Act”;
12. Shares and certificates or other evidences of deposits issued by a domestic savings and loan association organized under the laws of the State, which association has obtained insurance accounts pursuant to the “Financial Institution Reform, Recovery, and Enforcement Act of 1989” or as may be otherwise provided by law, only to the extent that such evidences of deposits are insured under that act;
13. Shares and certificates or other evidences of deposits issued by a domestic savings and loan association organized under the laws of the State, provided that no fiduciary may invest such deposits except with the approval of the probate court, and then in an amount not to exceed the amount which the fiduciary is permitted to invest under division (A)(12);
14. In savings accounts in, or certificates or other evidences of deposits issued by, a national bank located in the State or a state bank located in and organized under the laws of the State by depositing the funds in the bank, and such national or state bank when itself acting in a fiduciary capacity may deposit the funds in savings accounts in, or certificates or other evidences of deposits issued by, its own savings department or any bank subsidiary corporation owned or controlled by the bank holding company that owns or controls such national or state bank; provided that no deposit shall be made by any fiduciary, individual, or corporate, unless the deposits of the depository bank are insured by the federal deposit insurance corporation (FDIC) and provided that the deposit of the funds of any one trust in any such savings accounts in, or certificates or other evidences of deposits issued by, any one bank shall not exceed the sum insured under the “Federal Deposit Insurance Corporation Act of 1933”;
15. Obligations consisting of notes, bonds, debentures, or equipment trust certificates issued under an indenture, which are the direct obligations, or in the case of equipment trust certificates are secured by direct obligations, of a railroad or industrial corporation, or a corporation engaged directly and primarily in the production, transportation, distribution or sale of electricity or gas, or the operation of telephone or telegraph systems or waterworks, or in some combination of them; provided that the obligor corporation is one which is incorporated under the laws of the United States, and state or the District of Columbia, and the obligations are rated at the time of purchase in the highest or next highest classification established by at least two standard rating services selected from a list of the standard rating

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service which shall be prescribed by the superintendent of financial institutions; provided that every such list shall be certified by the superintendent to the clerk of each probate court in the State, and shall continue in effect until a different list is prescribed and certified;

16. Obligations issued, assumed, or guaranteed by the international finance corporation or by the international bank for reconstruction and development, the Asian development bank, the inter-American development bank, the African development bank, or other similar development bank in which the president, as authorized by congress and on behalf of the United States, has accepted membership, provided that the obligations are rated at the time of purchase in the highest or next highest classification established by at least one standard rating service selected from a list of standard rating services which shall be prescribed by the superintendent of financial institutions;
17. Securities of any investment company, as defined in and registered under sections 3 and 8 of the "Investment Company Act of 1940" that are invested exclusively in forms of investment or in instruments that are fully collateralized by forms of investment in which the fiduciary is permitted to invest pursuant to 1 through 16 above, provided that, in addition to such forms of investments, the investment company may, for the purpose of reducing risk of loss or of stabilizing investment returns, engage in hedging transactions.

In addition to the preceding investments, a fiduciary other than a guardian may make investments in any of the following kinds and classes of securities, provided that it may be lawfully sold in Ohio and investment is made only in such securities as would be acquired by prudent persons of discretion and intelligence in such matters who are seeking a reasonable income and the preservation of their capital:

1. Securities of corporations organized and existing under the laws of the United States, the District of Columbia, of any state in the United States including, but not limited to bonds, debentures, notes, equipment trust obligations, or other evidences of indebtedness, and shares of common and preferred stocks of such corporations;
2. Collective investment funds or securities of any investment company whether or not the fiduciary has invested other funds held by it in an agency or other nonfiduciary capacity in the securities of the same investment company. Such investments may be made regardless of the eligibility of the underlying assets held by the fund portfolios of the investment company.
3. Bonds or other interest-bearing obligations of any state or territory of the United States, or of any county, city, village, school district, or other legally constituted political taxing subdivision of any state or territory of the United States, not otherwise eligible under 2 or 3 in the preceding investment list.
4. Debt or equity securities of foreign corporations that trade on recognized United States domiciled exchanges.

These investments are subject to a restriction placed on an administrator or executor which states that no administrator or executor may invest funds belonging to an estate in an asset other than a direct obligation of the United States that has a maturity date not exceeding one year from the date of investment, or other than in a short term investment fund that is invested exclusively in obligations of the United States or of its agencies, or primarily in such obligations and otherwise only in variable demand notes, corporate money market instruments including, but not limited to, commercial paper, or fully collateralized repurchase agreements or other evidences of indebtedness that are payable on demand or generally have a

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maturity date not exceeding 91 days from the date of investment except with the approval of the probate court or with the permission of the instruments creating the trust.

A. Deposits

Custodial Credit Risk 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, \$153,382 of the Library's bank balance of \$294,856 was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Library to a successful claim by the FDIC.

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.

B. Investments

Investments are reported at fair value. As of December 31, 2006, the Library had the following investments:

| | Ohio Revised Code 135 | | Ohio Revised Code 2109 | |
|---|-----------------------|------------------|------------------------|------------------|
| | Fair Value | Average Maturity | Fair Value | Average Maturity |
| Federal National Mortgage Association Bonds STAROhio | \$11,627,428 | 419 Days | \$0 | |
| Federal Home Loan Bank Bonds | 10,968,737 | 35 Days | 0 | |
| Common and Convertible Preferred Stock | 9,960,170 | 495 Days | 0 | |
| Money Market/Principal Cash | 0 | | 6,869,649 | |
| Federal National Mortgage Association Notes | 1,010,669 | | 2,976,294 | |
| U.S. Treasury Notes | 3,404,800 | 197 Days | 0 | |
| Federal Home Loan Mortgage Corp. Bonds | 0 | | 2,257,150 | 6/30/07-8/15/16 |
| Federal Home Loan Bank Notes | 1,741,273 | 437 Days | 0 | |
| Corporate Bonds | 1,531,163 | 106 Days | 0 | |
| Federal Farm Credit Bank Bonds | 0 | | 1,078,944 | |
| FNMA Guaranteed Mortg. Passthru Cert. Pool | 999,060 | 33 Days | 0 | |
| Federal Home Loan Mortgage Corporation Discounted Notes | 0 | | 856,013 | 12/1/18-11/1/36 |
| | 0 | | 141,943 | 12/15/2029 |
| Total | \$41,243,300 | | \$14,179,993 | |

Investments are restricted by the provisions of the *Ohio Revised Code*. During 2006, investments of the cash management pool were limited to federal money market funds, treasury notes, federal agency securities, and STAROhio, with the exception of the Library's endowment monies. The endowment monies are able to invest in common and preferred stock as upheld by a 1975 Cuyahoga County Probate Court Order Granting Authority to Invest. For these endowment monies, according to the Probate Court Order and a ruling from the Cuyahoga County Prosecutor, the Library may invest under *Ohio Revised Code* Sections 2109.37 and 2109.371.

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Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the Library's investment policy requires that operating funds be invested primarily in investments so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is to avoid the need to sell securities prior to maturity. To date, no investments have been purchased with a life greater than three years for the non-endowment funds.

Custodial Credit Risk 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 Federal Home Loan Bank Bonds, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Bonds, Federal Home Loan Mortgage Corporation Discounted Notes, Federal Farm Credit Bank Bonds, Federal National Mortgage Association Bonds and Notes, and the Federal National Mortgage Association Guaranteed Mortgage Passthru Certificate Pool are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the Library's name. The Library has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. To mitigate such custodial risk, the Library has appointed a qualified trustee as provided for in *Ohio Revised Code* Section 135.37, a financial institution with trust powers in the State of Ohio as custodian for the separate safekeeping of investment assets. Securities owned by the Library are held by the Library's custodian and the records of the custodian identifies the Library's securities in the custodian's monthly statement to the Library.

Credit Risk The Federal Home Loan Bank Bonds, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Bonds, Federal Home Loan Mortgage Corporation Discounted Notes, Federal Farm Credit Bank Bonds, Federal National Mortgage Association Bonds and Notes, and the Federal National Mortgage Association Guaranteed Mortgage Passthru Certificate Pool all carry a rating of AAA by Standard & Poor's. STAROhio also carries a rating of AAAm by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as having five percent or more invested in the securities of a single issuer. The Library's investment policy places no limit on the amount it may invest in any one issuer. The following is the Library's allocation as of December 31, 2006:

| | Percentage of Investments |
|---|------------------------------|
| Federal National Mortgage Association Bonds | 20.98% |
| STAROhio | 19.79% |
| Federal Home Loan Bank Bonds | 17.97% |
| Common and Convertible Preferred Stock | 12.40% |
| Money Market/Principal Cash | 7.19% |
| Federal National Mortgage Association Notes | 6.14% |
| U.S. Treasury Notes | 4.07% |
| Federal Home Loan Mortgage Corp. Bonds | 3.14% |
| Federal Home Loan Bank Notes | 2.76% |
| Corporate Bonds | 1.95% |
| Federal Farm Credit Bank Bonds | 1.80% |
| FNMA Guaranteed Mortg. Passthru Certif. Pool | 1.55% |
| Federal Home Loan Mortgage Corp. Discounted Notes | 0.26% |

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Notes to the Basic Financial Statements
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Note 6 - Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the Library district. Property tax revenue received during 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006 on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes which became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are being phased out-the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Library operations for the year ended December 31, 2006, was \$6.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

| <u>Category</u> | <u>Assessed Value</u> |
|---------------------|------------------------|
| Real Property | \$5,629,680,120 |
| Public Utility Real | 318,454,180 |
| Tangible Personal | 556,633,024 |
| Total | <u>\$6,504,767,324</u> |

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

The Cuyahoga County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Cleveland Public Library. The County Auditor periodically remits to the Library its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. In the general fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 operations and the collections of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue is deferred.

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For Year Ended December 31, 2006

Note 7 - Receivables

Receivables at December 31, 2006, consisted of taxes, accounts (billings for user charged services), interest, and intergovernmental receivables. All receivables are deemed collectible in full.

The Library receives a substantial portion of its intergovernmental revenue from the Library and Local Government Support fund (LLGSF), a State of Ohio fund. A portion of the State income tax is the revenue source for the LLGSF based on a formula within State law. The Cuyahoga County Budget Commission, consisting of the County Auditor, the County Treasurer and the County Prosecutor, allocate LLGSF monies to the nine library districts within Cuyahoga County, based on a determination of need. In 2006, the Library received 41.1843 percent of the countywide total, or \$26,867,387.

A summary of the principal items of intergovernmental receivables follows:

| | Amount |
|---|--------------|
| LLGSF | \$13,433,694 |
| Homestead, Rollback and Commercial Activity Tax | 3,354,487 |
| Library for the Blind & Physically Handicapped and Schweinfurth | 45,146 |
| Total | \$16,833,327 |

Note 8 – Interfund Balances

The general fund made advances to two non-major governmental funds, \$50,000 to the Senior Gateway fund and \$40,000 to the Starting Point fund, both due to timing of the receipt of grant monies to the nonmajor funds. All interfund balances will be repaid within the following year.

The general fund made a transfer of \$3,000,000 to the building and repair nonmajor governmental fund for a strategic plan commitment of building improvements for branches.

Note 9 - 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. The Library maintains a variety of insurance policies, including coverage for automobiles and equipment, general liability, public officials, property, boilers and machinery as indicated in the table below. The general liability coverage is \$1 million with excess umbrella coverage of an additional \$25 million. Settled claims have not exceeded this coverage in any of the past three years.

| Company | Type | Deductible | Coverage |
|-------------------------|---------------------------------|----------------|-------------------------|
| Affiliated FM Ins. Co. | Property, Boiler & Machinery | \$100,000 | \$400,000,000 |
| Affiliated FM Ins. Co. | Flood/Earthquake | \$100,000 each | \$100,000,000 each |
| Ohio Casualty | Umbrella Liability | \$0 | \$25,000,000 |
| Philadelphia Ins. Co. | General Liability | \$0 | \$1,000,000/\$2,000,000 |
| Westfield Ins. Co. | Automobile Liability | \$500/\$1,000 | \$1,000,000 |
| Westfield Ins. Co. | Uninsured/Underinsured | \$0 | \$25,000 |
| Ohio Casualty/Travelers | Treasurer/Deputys' Surety Bonds | \$0 | \$1,000,000 each |
| United National | Public Officials | \$50,000 | \$1,000,000 |
| Westfield Ins. Co. | Employee Fidelity | \$0 | \$500,000 |

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Workers' compensation is provided by the State. 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 Library provides medical and dental insurance on a paid premium basis. Other employee benefits include life insurance, short-term disability insurance and an IRC Section 125 flexible benefit plan.

Note 10 – Capital Assets

A summary of changes in capital assets during 2006 follows:

| | Balance 12/31/05 | Additions | Deletions | Balance 12/31/06 |
|--|----------------------|----------------------|------------------|----------------------|
| Governmental Activities | | | | |
| <i>Nondepreciable Capital Assets</i> | | | | |
| Land | \$2,680,202 | \$20,880 | \$0 | \$2,701,082 |
| Construction in Progress | 124,334 ** | 444,293 | 0 | 568,627 |
| <i>Total Nondepreciable Capital Assets</i> | <u>2,804,536</u> | <u>465,173</u> | <u>0</u> | <u>3,269,709</u> |
| <i>Depreciable Capital Assets</i> | | | | |
| Buildings/Improvements | 148,611,309 | 0 | 0 | 148,611,309 |
| Furniture/Equipment | 2,670,292 | 331,534 | (8,090) | 2,993,736 |
| Computers | 4,145,757 | 434,880 | (9,900) | 4,570,737 |
| Vehicles | 642,148 | 107,078 | (104,054) | 645,172 |
| <i>Total Depreciable Capital Assets</i> | <u>156,069,506</u> | <u>873,492</u> | <u>(122,044)</u> | <u>156,820,954</u> |
| <i>Less Accumulated Depreciation</i> | | | | |
| Buildings/Improvements | (42,596,518) | (3,587,791) | 0 | (46,184,309) |
| Furniture/Equipment | (2,426,870) | (136,852) | 8,090 | (2,555,632) |
| Computers | (3,059,479) | (381,850) | 9,900 | (3,431,429) |
| Vehicles | (535,103) | (80,714) | 103,955 | (511,862) |
| <i>Total Accumulated Depreciation</i> | <u>(48,617,970)</u> | <u>(4,187,207) *</u> | <u>121,945</u> | <u>(52,683,232)</u> |
| <i>Total Depreciable Capital Assets, Net</i> | <u>107,451,536</u> | <u>(3,313,715)</u> | <u>(99)</u> | <u>104,137,722</u> |
| <i>Governmental Activities Capital Assets, Net</i> | <u>\$110,256,072</u> | <u>(\$2,848,542)</u> | <u>(\$99)</u> | <u>\$107,407,431</u> |

*Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|--------------------|
| Administration and Support | \$742,088 |
| Public Services | <u>3,445,119</u> |
| Total | <u>\$4,187,207</u> |

**Construction in progress was restated for December 31, 2005 as \$124,334, changing Capital Assets, Net and Invested in Capital Assets, Net of Related Debt from \$110,131,738 to \$110,256,072. This change results in an offsetting decrease in 2005 public service costs from \$42,220,408 to \$42,096,074 and an increase of net assets as of December 31, 2005 from \$176,639,583 to \$176,763,917.

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Notes to the Basic Financial Statements
For Year Ended December 31, 2006

Note 11 – Long-Term Obligations

The changes in long-term obligations during the year were as follows:

| | Outstanding 12/31/2005 | Additions | Reductions | Outstanding 12/31/2006 | Amount Due in One Year |
|------------------------------|---------------------------|-----------|------------|---------------------------|------------------------------|
| Compensated Absences Payable | \$4,868,756 | \$689,140 | \$408,546 | \$5,149,350 | \$493,775 |

Compensated absences will be paid from the general fund.

Note 12 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the *Ohio Revised Code*. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377 or via the internet at www.opers.org.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2006 was 13.7 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, 2006, 2005, and 2004 were \$4,190,413, \$4,218,278, and \$3,494,481 respectively. 90 percent has been contributed for 2006, and 100 percent has been contributed for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$17,967 made by the Library and \$11,803 made by the plan members.

Note 13 – Post-Employment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional

Cleveland Public Library
Cuyahoga County
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or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. 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 2006 local government employer contribution rate was 13.70 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 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 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. 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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuation was 358,804. Actual employer contributions for 2006 that were used to fund postemployment benefits were \$1,376,551. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 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. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Note 14 – Compensated Absences

Full-time employees are entitled to up to 15 sick days per year and may earn and carry forward up to 120 days of sick leave at the end of the fiscal year. Upon retirement, with up to 25 years of service, employees receive one-half of their accumulated sick leave. For each year of service over 25 years, employees receive compensation for an additional 5 days of sick leave up to their entire accumulated amount. Vacation is earned based upon length of service and may be taken once earned, provided the employee works six months or more. Employees may carry forward up to 150 percent of their annual earned vacation leave at the end of any fiscal year.

Note 15 - Litigation

The Library is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Library's counsel that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the Library.

Cleveland Public Library
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Notes to the Basic Financial Statements
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Note 16 – Accountability and Compliance

A. Accountability

At December 31, 2006, the Senior Gateway Project fund had a deficit balance of \$31,111 because the \$50,000 advance from the general fund is recognized as an Interfund Payable in the modified accrual Senior Gateway Project fund financial statements at year end until the receipt of funds from the grantor and repayment of the advance in February, 2007.

B. Legal Compliance

Contrary to Section 117-8-02, Ohio Administrative Code, the Judd fund had expenditures plus encumbrances in excess of appropriations of \$4,236 for fiscal year 2006.



Mary Taylor, CPA

Auditor of State

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

Cleveland Public Library
Cuyahoga County
325 Superior Avenue
Cleveland, Ohio 44114

To the Board of Trustees:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Cleveland Public Library, Cuyahoga County, Ohio, (the Library) as of and for the years ended December 31, 2006, which collectively comprise the Library's basic financial statements and have issued our report thereon dated July 31, 2007. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Library's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Library's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Library's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Library's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Library's management in a separate letter dated July 31, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Library's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain noncompliance or other matter that we reported to the Library's management in a separate letter dated July 31, 2007

We intend this report solely for the information and use of the audit committee, management, and Board of Trustees. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

July 31, 2007



Mary Taylor, CPA
Auditor of State

CLEVELAND PUBLIC LIBRARY

CUYAHOGA 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 30, 2007**