



Mary Taylor, CPA
Auditor of State

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Middletown Public Library
Butler County
125 South Broad Street
Middletown, Ohio 45044

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Middletown Public Library, Butler County, Ohio (the Library), as of and for the year ended December 31, 2009, 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Middletown Public Library, Butler County, Ohio, as of December 31, 2009, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2010, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

August 5, 2010

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

This discussion and analysis of the Library's financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2009, within the limitations of the Library's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Highlights

Key highlights for 2009 are as follows:

Net assets of governmental activities decreased by \$1,347,545 or 23 percent. The fund most affected by decreases was the General Fund, which had a decrease of \$2,339,968 in the fund balance. The Capital Improvement Fund had an increase from the previous year of \$991,277 due to a transfer from the General Fund related to the new West Chester Branch.

The Library's general receipts are primarily from the Public Library Fund (PLF). In 2009, these receipts represent 92 percent of the total cash received for governmental activities during the year. In 2009, PLF revenue decreased by \$974,182.

Using the Basic Financial Statements

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

Report Components

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

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

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

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Library has elected to present its financial statements on a cash basis of accounting. Under this basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2009, using the cash basis accounting. The statement of net assets presents the cash balances of the governmental activities of the Library at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Library's general receipts.

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

Reporting the Government's Most Significant Funds

Fund financial statements provide detailed information about the Library's major funds – not the Library as a whole. The Library establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose.

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

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

The Government as a Whole

Table 1 provides a summary of the Government's net assets for 2009 compared to 2008 on a cash basis:

**(Table 1)
Net Assets**

Assets	Governmental Activities	
	2009	2008
Cash and Cash Equivalents	\$4,519,989	\$5,867,534
Total Assets	4,519,989	5,867,534
Net Assets		
Restricted for:		
Capital Outlay	2,263,094	1,271,817
Unrestricted	2,256,895	4,595,717
Total Net Assets	\$4,519,989	\$5,867,534

As mentioned previously, net assets of governmental activities decreased by \$1,347,545 or 23 percent during 2009. The primary reasons contributing to the decrease in cash balances are as follow:

- The General Fund balance decreased by 2,339,968 due to a transfer to the Capital Improvement Fund to help fund furnishings in the new West Chester Branch library
- The Capital Improvement Fund increased by 991,277

Table 2 reflects the changes in net assets in 2009 and 2008.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

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

	Governmental Activities 2009	Governmental Activities 2008
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$266,100	\$264,369
Operating Grants and Contributions	0	0
Capital Grants and Contributions	0	0
Total Program Receipts	266,100	264,369
General Receipts:		
Public Library Fund	4,498,183	5,472,365
Unrestricted Gifts & Contributions	26,944	30,446
Restricted Contributions	10,000	
Interest Income	62,439	188,910
Miscellaneous	20,018	37,526
Total General Receipts	4,617,584	5,729,247
Total Receipts	4,883,684	5,993,616
Disbursements:		
Library Services		
Public Service and Programs	2,301,480	2,371,276
Collection Development and Processing	1,279,176	1,571,784
Support Services:		
Facilities Operation and Maintenance	711,316	723,406
Information Services	115,173	104,710
Business Administration	760,114	753,718
Capital Outlay	1,063,970	421,367
Total Disbursements	6,231,229	5,946,261
Increase (Decrease) in Net Assets	(1,347,545)	47,355
Net Assets, Beginning of Year	5,867,534	5,820,179
Net Assets, End of Year	\$4,519,989	\$5,867,534

**MIDDLETOWN PUBLIC LIBRARY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

The significant drop in revenues is due to the decrease of the PLF (Public Library Fund) which is related to the State's income tax revenues. The decrease in Collection Development Processing is due to budget adjustments related to the drop in the PLF. The Capital Outlay increase from 2008 to 2009 is from the expenditures related to the opening of the new West Chester branch.

Program receipts represent only 5.4 percent of total receipts. Program receipts are primarily comprised of charges for patron sales and services, such as fines, fees, and coin-operated machine income.

General receipts represent 95 percent of the Library's total receipts, and of this amount, 97 percent is from the Public Library Fund. Interest income, miscellaneous, and donations make up the balance of the Library's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources. The most significant factor related to receipts is the drop in Public Library funding which come from the State's income tax revenue in which Middletown Public Library is heavily dependent upon. As a result the Library was forced to cut the Collection Development and Processing budget.

The Capital Outlay increased as a result of the new West Chester Library being constructed with the Middletown Public Library providing the furnishings for the new building.

Governmental Activities

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

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

(Table 3) Governmental Activities

	Total Cost Of Services 2009	Net Cost Of Services 2009	Total Cost Of Services 2008	Net Cost Of Services 2008
Library Services:				
Public Service and Programs	\$2,301,480	(\$2,035,380)	\$2,371,276	(\$2,106,907)
Collection Development/Processing	1,279,176	(1,279,176)	1,571,784	(1,571,784)
Support Services:				
Facilities Operation and Maintenance	711,316	(711,316)	723,406	(723,406)
Information Services	115,173	(115,173)	104,710	(104,710)
Business Administration	760,114	(760,114)	753,718	(753,718)
Capital Outlay:	1,063,970	(1,063,970)	421,367	(421,367)
Total Expenses	<u>\$6,231,229</u>	<u>(\$5,965,129)</u>	<u>\$5,946,261</u>	<u>(\$5,681,892)</u>

The dependence upon the Public Library Fund is apparent, as over 72 percent of governmental activities are supported through these general receipts. The total cost of services for Capital Outlay increased from 2008 to 2009 due to a boiler replacement and new library furnishings purchased.

The Government's Funds

Total governmental funds had receipts of \$6,883,684 and disbursements of \$8,231,229, with \$2,000,000 of this being a transfer from the General Fund to the Capital Improvement Fund. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased by \$2,339,968 due to the fact that the Library transferred funds to the Capital Improvement Fund to cover the costs of furnishings at a new branch in the system and anticipated future expenses in Capital expenditures.

General Fund Budgeting Highlights

The Library's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During 2009, the Government did not amend its General Fund budget for the transfer of \$2,000,000 due to the fact that The Middletown Public Library appropriates at the fund level for each fund.

Actual disbursements were \$7,211,691. The Library's spending was below the budgeted amounts as demonstrated by the reported variances. The result is a decrease in fund balance of \$2,339,968 for 2009.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

Current Issues

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on the Public Library Fund. Our newly prepared financial forecast predicts a deficit for 2010 and beyond; therefore, the administration implemented a strategy to delay the deficit. This plan became effective at the end of 2004. We reviewed our sources of revenue and determined that increases were unlikely. We then reviewed the disbursement history of the Library. We have reduced staffing levels through attrition in areas where we felt it would have the least impact on services. We have reduced collection disbursements compared to the original budgeted amounts.

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, and patrons with a general overview of the Library's finances and to reflect the Library's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Deborah M. Preston, Fiscal Officer, Middletown Public Library, 125 S. Broad Street, Middletown, OH 45044.

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**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2009**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,519,989</u>
Total Assets	<u><u>\$4,519,989</u></u>
Net Assets	
Restricted for:	
Capital Projects	2,263,094
Unrestricted	<u>2,256,895</u>
Total Net Assets	<u><u>\$4,519,989</u></u>

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF ACTIVITIES – CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
Cash	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Disbursements					
Governmental Activities					
Library Services:					
Public Service and Programs	\$2,301,480	\$266,100		\$(2,035,380)	
Collection Development and Processing	1,279,176			(1,279,176)	
Support Services:					
Facilities Operation and Maintenance	711,316			(711,316)	
Information Services	115,173			(115,173)	
Business Administration	760,114			(760,114)	
Capital Outlay	1,063,970			(1,063,970)	
Total Governmental Activities	\$6,231,229	\$266,100	\$0	\$0	(5,965,129)

General Receipts

Public Library Fund	4,498,183
Unrestricted Gifts and Contributions	26,944
Restricted Contributions	10,000
Interest Income	62,439
Miscellaneous	20,018
Total General Receipts	4,617,584

Change in Net Assets 1,347,545

Net Assets Beginning of Year 5,867,534

Net Assets End of Year \$4,519,989

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Capital Imp. Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,143,506	\$2,263,094	\$113,389	\$4,519,989
<i>Total Assets</i>	2,143,506	2,263,094	113,389	4,519,989
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$43,306	\$65,484	\$0	\$108,790
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	2,100,200			2,100,200
Other Governmental Funds			113,389	113,389
Capital Improvement Fund		2,197,610		2,197,610
<i>Total Fund Balances</i>	\$2,143,506	\$2,263,094	\$113,389	\$4,519,989

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Public Library Fund	\$4,498,183			4,498,183
Patron Fines and Fees	250,130			250,130
Services Provided to Others	15,970			15,970
Contributions, Gifts and Donations	27,578		9,366	36,944
Earnings on Investments	59,844		2,595	62,439
Miscellaneous	20,018			20,018
<i>Total Receipts</i>	<u>4,871,723</u>	<u>0</u>	<u>11,961</u>	<u>4,883,684</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	2,299,330		2,150	2,301,480
Collection Development and Processing	1,279,176			1,279,176
Support Services:				
Facilities Operation and Maintenance	711,316			711,316
Information Services	115,173			115,173
Business Administration	751,449		8,665	760,114
Capital Outlay	55,247	1,008,723		1,063,970
<i>Total Disbursements</i>	<u>5,211,691</u>	<u>1,008,723</u>	<u>10,815</u>	<u>6,231,229</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(339,968)</u>	<u>(1,008,723)</u>	<u>1,146</u>	<u>(1,347,545)</u>
Other Financing Sources (Uses)				
Transfers In		2,000,000		2,000,000
Transfers Out	(2,000,000)			(2,000,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(2,000,000)</u>	<u>2,000,000</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(2,339,968)	991,277	1,146	(1,347,545)
<i>Fund Balances Beginning of Year</i>	<u>4,483,474</u>	<u>1,271,817</u>	<u>112,243</u>	<u>5,867,534</u>
<i>Fund Balances End of Year</i>	<u><u>\$2,143,506</u></u>	<u><u>\$2,263,094</u></u>	<u><u>\$113,389</u></u>	<u><u>4,519,989</u></u>

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL BUDGET BASIS – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Receipts				
Public Library Fund	\$5,840,240	\$5,840,240	\$4,498,183	(1,342,057)
Patron Fines and Fees	247,000	247,000	250,130	3,130
Services Provided to Others	7,000	7,000	15,970	8,970
Contributions, Gifts and Donations	500	500	27,578	27,078
Earnings on Investments	125,000	125,000	59,844	(65,156)
Miscellaneous	10,000	10,000	20,018	10,018
<i>Total Receipts</i>	<u>6,229,740</u>	<u>6,229,740</u>	<u>4,871,723</u>	<u>(1,358,017)</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	3,204,662	3,204,662	2,299,330	905,332
Collection Development and Processing	1,782,834	1,782,834	1,279,176	503,658
Support Services:				
Facilities Operation and Maintenance	991,386	991,386	711,316	280,070
Information Services	160,520	160,520	115,173	45,347
Business Administration	1,047,321	1,047,321	751,449	295,872
Capital Outlay	77,000	77,000	55,247	21,753
Contingency	100,000	100,000	0	100,000
<i>Total Disbursements</i>	<u>7,363,723</u>	<u>7,363,723</u>	<u>5,211,691</u>	<u>2,152,032</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,133,983)</u>	<u>(1,133,983)</u>	<u>(339,968)</u>	<u>794,015</u>
Other Financing Sources (Uses)				
Transfers Out	(250,000)	(250,000)	(2,000,000)	(1,750,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(250,000)</u>	<u>(250,000)</u>	<u>(2,000,000)</u>	<u>(1,750,000)</u>
<i>Net Change in Fund Balance</i>	(1,383,983)	(1,383,983)	(2,339,968)	(955,985)
<i>Fund Balance Beginning of Year</i>	4,483,474	4,483,474	4,483,474	0
Prior Year Encumbrances Appropriated	156,975	156,975	156,975	0
<i>Fund Balance End of Year</i>	<u>\$3,256,466</u>	<u>\$3,256,466</u>	<u>\$2,300,481</u>	<u>(\$955,985)</u>

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**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

NOTE 1 – DESCRIPTION OF THE LIBRARY AND REPORTING ENTITY

The Middletown Public Library, Butler County, Ohio (the Library), was organized as a district public library in 1913 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the Middletown City Council. They serve for four-year terms and members serve without compensation. Under Ohio statutes, the Library is a body politic and corporate capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. Control and management of the Library is governed by sections 3375.33 to 3375.39 of the Ohio Revised Code with the administration of the day-to-day operations of the Library being the responsibility of the Library Director and financial accountability being solely that of the Fiscal Officer.

The Library is fiscally independent of the City of Middletown, although the City serves in a ministerial capacity as the taxing district for the Library.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, the financial statements of the Middletown Public Library have been prepared on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The most significant of the Library's accounting policies are described below.

A. Basis of Presentation

The Library's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Library at year end. These statements include the financial activities of the primary government.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

(Continued)

The statement of net assets presents the cash balance of the governmental activities of the Library at year end. The statement of activities compares disbursements with program receipts for each of the Library's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Library is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Library's general receipts.

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

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

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

C. Basis of Accounting

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenues for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

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

D. Budgetary Process

All funds are legally required to be appropriated. The Appropriation Resolution is the Trustee's authorization to spend resources and sets limits on expenditures plus encumbrances at the level of control selected by the Trustees. The legal level of control has been established at the fund level for all funds. Budgetary modifications at the legal level of control may only be made by resolution of the Board of Library Trustees.

For control purposes, the Library estimates revenues to be received for the year. These estimated revenues, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated revenues may be revised during the year if projected increases or decreases in receipts are identified by the Fiscal Officer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of estimated resources when the original appropriation was adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriation, if needed, was enacted by the Trustees.

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

E. Cash and Cash Equivalents

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

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

Investments in nonnegotiable certificates of deposit are considered part of the cash management pool and are presented on the financial statements as cash equivalents.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the General Fund during 2009 totaled \$59,844.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

F. Accumulated Leave

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

G. Employer Contributions to Cost-Sharing Pension Plans

The Library recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 & 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. Net Assets

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

The Library's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Interfund Transactions

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

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis are outstanding year end encumbrances which are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$43,306 for the General fund and \$65,484 (budgetary basis) for all other funds.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the Library treasury. Such monies must be maintained either as cash in the Library treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Library has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home

Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

Bonds and other obligations of the State of Ohio or Ohio local governments;

Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

The State Treasurer's investment pool (STAR Ohio).

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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian. At year end, the Library had \$1,000 in un-deposited cash on hand, which is included on the balance sheet of the Library as part of "Equity in Pooled Cash and Cash Equivalents."

At year end, the carrying amount of the Library's deposits was \$4,519,990 and the bank balance was \$4,595,024. Of the bank balance \$250,000 was covered by federal depository insurance and the remaining amount was covered by collateral held by third party trustees pursuant to Section 135.181 of the Revised Code, in collateralized pools securing all public funds on deposit with the specific depository institutions. Although all State 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.

NOTE 5 – RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2009, the Library contracted with several companies for various types of insurance coverage as follows:

<u>Type of Coverage</u>	<u>Coverage</u>
Commercial Property	\$10,289,595
General Liability	1,000,000
Commercial Umbrella	3,000,000
Inland Marine	9,490,468
Vehicle	500,000
Library Officials	50,000

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

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

NOTE 6 – PUBLIC LIBRARY FUND

The primary source of revenue for Ohio Public Libraries is the Public Library Fund (PLF). The PLF is allocated to each county based on the county's prior intangible tax revenues and its population. The County Budget Commission allocates these funds to the Library based on its census of population for which the library services. The Budget Commission cannot reduce its allocation of these funds based on any additional revenues the Library receives.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLAN

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year).

Under the Member Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans.

For the year ended December 31, 2009, the members of all three plans were required to contribute 10.0 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2009 was 14.00 percent.

The Library's required contributions for pension obligations to the Traditional and Combined plans for the years ended December 31, 2009, 2008, and 2007 were \$362,607, \$376,508, and \$369,528 respectively; the full amount has been contributed for 2009, 2008, and 2007.

NOTE 8 – POST EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the Traditional or Combined plans. Health care coverage for disability recipients and primary survivors recipients is available. Members of the Member-Directed Plan do not qualify for postretirement health care coverage.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-employment health care. In 2009, the library contributed at a rate of 14.00% of covered payroll. The portion of employer contributions, for all employers, allocated to health care was 7% from January 1 through March, 31, 2009 and 5.5% from April 1 through December 31, 2009.

Summary of Assumptions:

Actuarial Review-The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2008.

Funding Method-The individual entry age actuarial cost method of valuations is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method-All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

Investment Return-The investment assumption rate for 2008 was 6.5%.

Active Employee Total Payroll-An annual increase of 4%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. In addition, annual pay increases over and above the 4% base increase, were assumed to range from 0.50% to 6.3%.

Health Care-Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50% to 3.00% for the next 6 years. In subsequent years, (7 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEB is advance-funded on an actuarially determined basis. The following disclosures are required:

The Traditional Pension and Combined Plans had 357,584 active contributing participants as of December 31, 2009. The number of active contributing participants for both plans used in the December 31, 2008, actuarial valuations were 356,388.

The rates stated above are the contractually required contribution rates for OPERS. Contributions made by the Library to fund post employment benefits in 2009 were \$153,508.

The amount of \$10.7 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2008.

Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2008, reported the actuarially accrued liability and the unfunded actuarially accrued liability for OPEB at \$29.6 billion and \$18.9 billion, respectively.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009
(Continued)**

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to health care plan.

NOTE 9 - INTERFUND TRANSFERS

The General Fund transferred \$2,000,000 to the Capital Improvement Fund for the purchase of furnishings in the new West Chester Branch and various items throughout the Library.

NOTE 10 – SUBSEQUENT EVENT

On May 4, 2010, voters approved a 0.75 mill levy for the benefit of the Middletown Public Library for current expenses. The Tax will be levied for a period of five years, commencing in 2010, first due in 2011. The levy is expected to generate approximately \$3.2 million per year.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Middletown Public Library
Butler County
125 South Broad Street
Middletown, Ohio 45044

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Middletown Public Library, Butler County, Ohio (the Library), as of and for the year ended December 31, 2008, 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Middletown Public Library, Butler County, Ohio, as of December 31, 2008, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2010, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

August 5, 2010

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

This discussion and analysis of the Library's financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2008, within the limitations of the Library's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Highlights

Key highlights for 2008 are as follows:

Net assets of governmental activities increased by \$47,355 or .8 percent. The fund most affected by increases was the General Fund, which had an increase of \$125,211 in the fund balance. The Capital Improvement Fund had a decrease from the previous year of \$88,674 due to a new Integrated Library System.

The Library's general receipts are primarily from the Public Library Fund (PLF). In 2008, these receipts represent 91 percent of the total cash received for governmental activities during the year. In 2008, PLF revenue decreased by \$8,824.

Using the Basic Financial Statements

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

Report Components

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

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

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

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Library has elected to present its financial statements on a cash basis of accounting. Under this basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2008, using the cash basis accounting. The statement of net assets presents the cash balances of the governmental activities of the Library at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Library's general receipts.

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

Reporting the Government's Most Significant Funds

Fund financial statements provide detailed information about the Library's major funds – not the Library as a whole. The Library establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose.

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

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

The Government as a Whole

Table 1 provides a summary of the Government's net assets for 2008 compared to 2007 on a cash basis:

**(Table 1)
Net Assets**

	Governmental Activities	
	2008	2007
Assets		
Cash and Cash Equivalents	\$5,867,534	\$5,820,179
Total Assets	5,867,534	5,820,179
Net Assets		
Restricted for:		
Capital Outlay	1,271,817	1,360,491
Unrestricted	4,595,717	4,459,688
Total Net Assets	\$5,867,534	\$5,820,179

As mentioned previously, net assets of governmental activities increased \$47,355 or .8 percent during 2008. The primary reasons contributing to the almost break even in cash balances are as follows:

- The General Fund balance increased by 125,211
- The Capital Improvement Fund decreased by 88,674

Table 2 reflects the changes in net assets in 2008 and 2007.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

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

	Governmental Activities 2008	Governmental Activities 2007
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$264,369	\$250,967
Operating Grants and Contributions	0	0
Capital Grants and Contributions	0	0
Total Program Receipts	<u>264,369</u>	<u>250,967</u>
General Receipts:		
Public Library Fund	5,472,365	5,481,189
Unrestricted Gifts & Contributions	30,446	16,940
Interest Income	188,910	332,579
Miscellaneous	0 37,526	887
Total General Receipts	<u>5,729,247</u>	<u>5,831,595</u>
Total Receipts	<u>5,993,616</u>	<u>6,082,562</u>
Disbursements:		
Library Services		
Public Service and Programs	2,371,276	2,327,876
Collection Development and Processing	1,571,784	1,633,905
Support Services:		
Facilities Operation and Maintenance	723,406	706,552
Information Services	104,710	106,898
Business Administration	753,718	731,933
Capital Outlay	421,367	558,702
Total Disbursements	<u>5,946,261</u>	<u>6,065,866</u>
Increase (Decrease) in Net Assets	47,355	16,696
Net Assets, Beginning of Year	<u>5,820,179</u>	<u>5,803,483</u>
Net Assets, End of Year	<u><u>\$5,867,534</u></u>	<u><u>\$5,820,179</u></u>

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

Program receipts represent only 4.4 percent of total receipts. Program receipts are primarily comprised of charges for patron sales and services, such as fines, fees, and coin-operated machine income.

General receipts represent 96 percent of the Library's total receipts, and of this amount, 96 percent is from the Public Library Fund. Interest income, miscellaneous, and donations make up the balance of the Library's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Governmental Activities

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the Library. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Library that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2008	Net Cost Of Services 2008	Total Cost Of Services 2007	Net Cost Of Services 2007
Library Services:				
Public Service and Programs	\$2,371,276	(\$2,106,907)	\$2,327,876	(\$2,076,909)
Collection Development/Processing	1,571,784	(1,571,784)	1,633,905	(1,633,905)
Support Services:				
Facilities Operation and Maintenance	723,406	(723,406)	706,552	(706,552)
Information Services	104,710	(104,710)	106,898	(106,898)
Business Administration	753,718	(753,718)	731,933	(731,933)
Capital Outlay:	421,367	(421,367)	558,702	(558,702)
Total Expenses	<u>\$5,946,261</u>	<u>(\$5,681,892)</u>	<u>\$6,065,866</u>	<u>(\$5,814,899)</u>

The dependence upon the Public Library Fund is apparent, as over 92 percent of governmental activities are supported through these general receipts. The total cost of services for Capital Outlay decreased from 2007 to 2008 as there were not as many capital projects budgeted.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

The Government's Funds

Total governmental funds had receipts of \$6,243,616 and disbursements of \$6,196,261. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased by \$125,211 due to the fact that anticipated expenditures did not happen in the year as expected.

General Fund Budgeting Highlights

The Library's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During 2008, the Government did not amend its General Fund budget.

Actual disbursements were \$5,853,919. The Library's spending was below the budgeted amounts as demonstrated by the reported variances. The result is the increase in fund balance of \$125,211 for 2008.

Current Issues

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on the Public Library Fund. Our newly prepared financial forecast predicts a deficit for 2009 and beyond; therefore, the administration implemented a strategy to delay the deficit. This plan became effective at the end of 2004. We reviewed our sources of revenue and determined that increases were unlikely. We then reviewed the disbursement history of the Library. We have reduced staffing levels through attrition in areas where we felt it would have the least impact on services. We have reduced collection disbursements compared to the original budgeted amounts.

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, and patrons with a general overview of the Library's finances and to reflect the Library's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Deborah M. Preston, Fiscal Officer, Middletown Public Library, 125 S. Broad Street, Middletown, OH 45044.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2008**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$5,867,534</u>
Total Assets	<u><u>\$5,867,534</u></u>
Net Assets	
Restricted for:	
Capital Projects	1,271,817
Unrestricted	<u>4,595,717</u>
Total Net Assets	<u><u>\$5,867,534</u></u>

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF ACTIVITIES – CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
Cash	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Disbursements					
Governmental Activities					
Library Services:					
Public Service and Programs	\$2,371,276	\$264,369		\$(2,106,907)	
Collection Development and Processing	1,571,784			(1,571,784)	
Support Services:					
Facilities Operation and Maintenance	723,406			(723,406)	
Information Services	104,710			(104,710)	
Business Administration	753,718			(753,718)	
Capital Outlay	421,367			(421,367)	
Total Governmental Activities	\$5,946,261	\$264,369	\$0	\$0	(5,681,892)
General Receipts					
				5,472,365	
				30,446	
				0	
				188,910	
				37,526	
				5,729,247	
				47,355	
				5,820,179	
				5,820,179	
				\$5,867,534	

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General Fund	Capital Imp. Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,483,474	\$1,271,817	\$112,243	\$5,867,534
<i>Total Assets</i>	4,483,474	1,271,817	112,243	5,867,534
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$156,975	\$114,950	\$0	\$271,925
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	4,326,499			4,326,499
Other Governmental Funds			112,243	112,243
Capital Improvement Fund		1,156,867		1,156,867
<i>Total Fund Balances</i>	\$4,483,474	\$1,271,817	\$112,243	\$5,867,534

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Public Library Fund	\$5,472,365			5,472,365
Patron Fines and Fees	243,679			243,679
Services Provided to Others	20,690			20,690
Contributions, Gifts and Donations	20,119		10,327	30,446
Earnings on Investments	184,751		4,159	188,910
Miscellaneous	37,526			37,526
<i>Total Receipts</i>	<u>5,979,130</u>	<u>0</u>	<u>14,486</u>	<u>5,993,616</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	2,369,501		1,775	2,371,276
Collection Development and Processing	1,571,784			1,571,784
Support Services:				
Facilities Operation and Maintenance	723,406			723,406
Information Services	104,710			104,710
Business Administration	751,825		1,893	753,718
Capital Outlay	82,693	338,674		421,367
<i>Total Disbursements</i>	<u>5,603,919</u>	<u>338,674</u>	<u>3,668</u>	<u>5,946,261</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>375,211</u>	<u>(338,674)</u>	<u>10,818</u>	<u>47,355</u>
Other Financing Sources (Uses)				
Transfers In		250,000		250,000
Transfers Out	(250,000)			(250,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(250,000)</u>	<u>250,000</u>	<u>0</u>	<u>0</u>
				<u>0</u>
<i>Net Change in Fund Balances</i>	125,211	(88,674)	10,818	47,355
<i>Fund Balances Beginning of Year</i>	<u>4,358,263</u>	<u>1,360,491</u>	<u>101,425</u>	<u>5,820,179</u>
<i>Fund Balances End of Year</i>	<u>\$4,483,474</u>	<u>\$1,271,817</u>	<u>\$112,243</u>	<u>5,867,534</u>

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL BUDGET BASIS – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Receipts				
Public Library Fund	\$5,645,265	\$5,645,265	\$5,472,365	(172,900)
Patron Fines and Fees	236,000	236,000	243,679	7,679
Services Provided to Others	8,000	8,000	20,690	12,690
Contributions, Gifts and Donations	500	500	20,119	19,619
Earnings on Investments	225,000	225,000	184,751	(40,249)
Miscellaneous	10,000	10,000	37,526	27,526
<i>Total Receipts</i>	<u>6,124,765</u>	<u>6,124,765</u>	<u>5,979,130</u>	<u>(145,635)</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	2,876,669	2,876,669	2,369,501	507,168
Collection Development and Processing	1,908,209	1,908,209	1,571,784	336,425
Support Services:				
Facilities Operation and Maintenance	999,648	999,648	723,406	276,242
Information Services	127,121	127,121	104,710	22,411
Business Administration	912,745	912,745	751,825	160,920
Capital Outlay	242,519	242,519	82,693	159,826
Contingency	100,000	100,000	0	100,000
<i>Total Disbursements</i>	<u>7,166,911</u>	<u>7,166,911</u>	<u>5,603,919</u>	<u>1,562,992</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,042,146)</u>	<u>(1,042,146)</u>	<u>375,211</u>	<u>1,417,357</u>
Other Financing Sources (Uses)				
Transfers Out	(250,000)	(250,000)	(250,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(1,292,146)	(1,292,146)	125,211	1,417,357
<i>Fund Balance Beginning of Year</i>	4,358,263	4,358,263	4,358,263	0
Prior Year Encumbrances Appropriated	160,197	160,197	160,197	0
<i>Fund Balance End of Year</i>	<u>\$3,226,314</u>	<u>\$3,226,314</u>	<u>\$4,643,671</u>	<u>\$1,417,357</u>

See accompanying notes to the basic financial statements

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**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

NOTE 1 – DESCRIPTION OF THE LIBRARY AND REPORTING ENTITY

The Middletown Public Library, Butler County, Ohio (the Library), was organized as a district public library in 1913 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the Middletown City Council. They serve for four-year terms and members serve without compensation. Under Ohio statutes, the Library is a body politic and corporate capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. Control and management of the Library is governed by sections 3375.33 to 3375.39 of the Ohio Revised Code with the administration of the day-to-day operations of the Library being the responsibility of the Library Director and financial accountability being solely that of the Fiscal Officer.

The Library is fiscally independent of the City of Middletown, although the City serves in a ministerial capacity as the taxing district for the Library.

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, the financial statements of the Middletown Public Library have been prepared on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The most significant of the Library's accounting policies are described below.

A. Basis of Presentation

The Library's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Library at year end. These statements include the financial activities of the primary government.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

(Continued)

The statement of net assets presents the cash balance of the governmental activities of the Library at year end. The statement of activities compares disbursements with program receipts for each of the Library's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Library is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Library's general receipts.

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

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

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

C. Basis of Accounting

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenues for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

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

D. Budgetary Process

All funds are legally required to be appropriated. The Appropriation Resolution is the Trustee's authorization to spend resources and sets limits on expenditures plus encumbrances at the level of control selected by the Trustees. The legal level of control has been established at the fund and or major category level for all funds. Budgetary modifications at the legal level of control may only be made by resolution of the Board of Library Trustees.

For control purposes, the Library estimates revenues to be received for the year. These estimated revenues, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated revenues may be revised during the year if projected increases or decreases in receipts are identified by the Fiscal Officer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of estimated resources when the original appropriation was adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriation, if needed, was enacted by the Trustees.

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

E. Cash and Cash Equivalents

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

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

Investments in nonnegotiable certificates of deposit are considered part of the cash management pool and are presented on the financial statements as cash equivalents.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the General fund during 2008 totaled \$184,751.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

F. Accumulated Leave

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

G. Employer Contributions to Cost-Sharing Pension Plans

The Library recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 & 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. Net Assets

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

The Library's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Interfund Transactions

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

NOTE 3 -BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The Statement of Receipts Disbursements and Changes in Fund Balance - Budget and Actual - Budgetary Basis presented for the General fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis are outstanding encumbrances which are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$156,975 for the General fund and \$114,950 (budgetary basis) for all other funds.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 4 – DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the Library treasury. Such monies must be maintained either as cash in the Library treasury in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Library has identified as not required for use within the current five-year period of designation of deposited. Inactive deposits must either be evidenced by depositories or by savings or deposit accounts including, but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

United State Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

Bonds, notes debenture, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

Bonds and other obligations of the State of Ohio or Ohio local governments;

Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

The State Treasurer's investment pool (STAR Ohio).

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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

(Continued)

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 year from the date of purchase unless matched to a specific obligation or debt of the Library, and must be purchased with the expectation that it will be held to maturity.

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

At the year end the Library had \$1,000 in un-deposited cash on hand, which is included on the balance sheet of the Library as part of the "Equity in Pooled Cash and Cash Equivalents."

At year end, the carrying amount of the Library's deposits was \$5,867,534 and the bank balance was \$5,899,177. Of the bank balance \$500,000 was covered by federal depository insurance and the remaining amount was covered by collateral held by third party trustees pursuant to Section 135.181 of the Revised Code, in collateralized pools securing all public funds on deposit with the specific depository institutions. Although all State 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.

NOTE 5 – RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2008, the Library contracted with several companies for various types of insurance coverage as follows:

<u>Type of Coverage</u>	<u>Coverage</u>
Commercial Property	\$10,289,595
General Liability	1,000,000
Commercial Umbrella	3,000,000
Inland Marine	9,490,468
Vehicle	500,000
Library Officials	50,000

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

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

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 6 – PUBLIC LIBRARY FUND

The primary source of revenue for Ohio Public Libraries is the Public Library Fund (PLF). The PLF is allocated to each county based on the county's prior intangible tax revenues and its population. The County Budget Commission allocates these funds to the Library based on its census of population for which the library services. The Budget Commission cannot reduce its allocation of these funds based on any additional revenues the Library receives.

NOTE 7 – DEFINED BENEFIT PENSION PLAN

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year).

Under the Member Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provide 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.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2008, member and employer contribution rates were consistent across all three plans.

For the year ended December 31, 2008, the members of all three plans were required to contribute 10.0 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2008 was 14.00 percent.

The Library's required contributions for pension obligations to the Traditional and Combined plans for the years ended December 31, 2008, 2007, and 2006 were \$376,508, \$369,528, and \$356,058 respectively; the full amount has been contributed for 2008, 2007, and 2006.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 8 – POST EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the Traditional or Combined plans. Health care coverage for disability recipients and primary survivors recipients are available. Members of the Member-Directed Plan do not qualify for postretirement health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-employment health care. In 2008, the library contributed at a rate of 14.00% of covered payroll. The portion of employer contributions, allocated to health care was 7% in 2008 for all employees.

Summary of Assumptions:

Actuarial Review-The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2007.

Funding Method-The individual entry age actuarial cost method of valuations is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method-All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

Investment Return-The investment assumption rate for 2007 was 6.5%.

Active Employee Total Payroll-An annual increase of 4%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. In addition, annual pay increases over and above the 4% base increase, were assumed to range from 0.50% to 6.3%.

Health Care-Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50% to 4.00% for the next 7 years. In subsequent years, (8 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEB is advance-funded on an actuarially determined basis. The following disclosures are required:

The Traditional Pension and Combined Plans had 363,503 active contributing participants as of December 31, 2008. The number of active contributing participants for both plans used in the December 31, 2007, actuarial valuations were 364,076.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

The rates stated above are the contractually required contribution rates for OPERS. Contributions made by the Library to fund post employment benefits in 2008 were \$188,254.

The amount of \$12.8 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2007.

Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2007, reported the actuarially accrued liability and the unfunded actuarially accrued liability for OPEB at \$29.8 billion and \$17.0 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. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to health care plan.

NOTE 9 - INTERFUND TRANSFERS

The General Fund transferred \$250,000 to the Capital Improvement Fund for the purchase and maintenance of various items throughout the Library.

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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*

Middletown Public Library
Butler County
125 South Broad Street
Middletown, Ohio 45044

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Middletown Public Library, Butler County, (the Library) as of and for the years ended December 31, 2009 and 2008, which collectively comprise the Library's basic financial statements and have issued our report thereon dated August 5, 2010. 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Library's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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*.

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www.auditor.state.oh.us

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

We intend this report solely for the information and use of management, the audit committee, Board of Trustees, and others within the Library. 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

August 5, 2010

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	OAC 117-2-01(D), lack of management oversight in the proper presentation and disclosure of General Fund budget versus actual receipts and disbursements	Yes	



Mary Taylor, CPA
Auditor of State

MIDDLETOWN PUBLIC LIBRARY

BUTLER 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 19, 2010**