



**Auditor of State
Betty Montgomery**

CLEVELAND PUBLIC LIBRARY
CUYAHOGA COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Cleveland Public Library
Cuyahoga County
325 Superior Avenue
Cleveland, Ohio 44114

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Cleveland Public Library, Cuyahoga County, Ohio (the Library) as of and for the year ended December 31, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Cleveland Public Library, Cuyahoga County, Ohio, as of December 31, 2003, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the Library implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management Discussion's 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

June 28, 2004

Cleveland Public Library
Cuyahoga County
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The Discussion and Analysis of the Cleveland Public Library's (the "Library") financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the Library's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the Library's financial performance.

Financial Highlights

Key financial highlights for 2003 are:

Total assets increased by \$11,720,142 or 6.15 percent increase over 2002.

Total liabilities increased by \$16,368,196, or 56.26 percent increase over 2002.

Total net assets decreased by \$4,648,054 or 2.88 percent from 2002.

Total capital assets decreased \$3,020,035 or 2.51 percent from 2002.

Total outstanding long-term liabilities decreased \$343,105 from 2002, a decrease of 6.86 percent.

Using These Basic Financial Statements

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

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

Reporting the Library as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the Library to provide services to our citizens, the view of the Library as a whole looks at all financial transactions and asks the question, "How did the Library do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the Library's net assets and the changes in those assets. The changes in net assets are important because it tells the reader whether, for the Library as a whole, the financial position of the Library has improved or diminished. However, in evaluating the overall position of the Library, non-financial information such as changes in the Library's tax base and the condition of the Library capital

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assets will also need to be evaluated. The Statement of Net Assets and the Statement of Activities are divided into the following categories:

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

Reporting the Cleveland Public Library's Most Significant Fund

Fund Financial Statements

The presentation of the Library's major fund begins on page 12. Fund financial reports provide detailed information about the Library's major fund based on the restrictions on the use of monies. The Library has established many funds that account for the multitude of services and facilities provided for our patrons. However, these fund financial statements focus on the Library's most significant fund. In the case of the Library, the major fund is the General Fund.

Government Funds

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

The Library as a Whole

The Statement of Net Assets looks at the Library as a whole. Table 1 provides a summary of the Library's net assets for 2003 compared to 2002.

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Table 1
Net Assets

	Governmental Activities	
	2003	2002
Assets		
Current and Other Assets	\$85,040,979	\$70,300,802
Capital Assets, Net	117,334,531	120,354,566
<i>Total Assets</i>	<u>202,375,510</u>	<u>190,655,368</u>
Liabilities		
Current and Other Liabilities	40,800,132	24,088,831
Long-Term Liabilities:		
Due Within One Year	1,887,640	1,936,569
Due In More Than One Year	2,771,757	3,065,933
<i>Total Liabilities</i>	<u>45,459,529</u>	<u>29,091,333</u>
Net Assets		
Invested in Capital Assets Net of Related Debt	117,334,531	120,354,566
Restricted for:		
Endowments - Expendable	1,960,154	1,703,945
Endowments - Nonexpendable	670,536	656,506
Capital Projects	4,288,565	5,917,296
Other Purposes	9,791,680	8,734,315
Unrestricted	22,870,515	24,197,407
<i>Total Net Assets</i>	<u>\$156,915,981</u>	<u>\$161,564,035</u>

The increase in Current and Other Assets is due primarily to the increased Property Tax Receivable due to the voter-approved May, 2003 increase in property tax millage. The Capital Assets decrease is due primarily to annual depreciation of assets. The Current and Other Liabilities increase is also primarily due to the increased property taxes that will not be collected until 2004 and therefore are deferred revenue, a liability, during 2003.

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Table 2 shows the changes in net assets for the year ended December 31, 2003. Since this is the first year the Library has prepared financial statements implementing GASB Statement 34, revenue and expense comparisons to 2002 are not available. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities
Revenues	
Program Revenues:	
Charges for Services	\$3,331,826
Operating Grants, Contributions and Investment Earnings	2,515,516
	5,847,342
<i>Total Program Revenues</i>	<i>5,847,342</i>
General Revenues:	
Property Taxes	18,041,480
Grants and Entitlements	28,573,889
Investment Earnings	277,329
Miscellaneous	460,827
	47,353,525
<i>Total General Revenues</i>	<i>47,353,525</i>
<i>Total Revenues</i>	<i>53,200,867</i>
Program Expenses	
Administration and Support	19,989,166
Public Service	37,859,755
	57,848,921
<i>Total Expenses</i>	<i>57,848,921</i>
<i>Decrease in Net Assets</i>	<i>(4,648,054)</i>
<i>Net Assets Beginning of Year</i>	<i>161,564,035</i>
<i>Net Assets End of Year</i>	<i>\$156,915,981</i>

GOVERNMENTAL ACTIVITIES

For the most part, Administrative and Support expenses are underwritten by the general revenues of the Library rather than program revenues except for the cost recovery of automated library services provided to the CLEVNET consortium of 31 libraries spread over nine counties in northern Ohio. The Public Service expenses are also mainly supported by the general revenues of the Library. However, the Library has been successful in being awarded a number of grants and also uses the investment earnings received from endowments to help support the free and equitable access to programming and services.

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Table 3 presents a summary for governmental activities, the total cost of services and the net cost of providing these services. Comparison to 2002 has not been made since they are not available.

Table 3
Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
Administration and Support	\$19,989,166	(\$16,324,392)
Public Service	37,859,755	(35,677,187)
<i>Total</i>	\$57,848,921	(\$52,001,579)

The Library's Funds

Information about the Library's governmental funds begins on page 12. These funds are accounted for by using the modified accrual bases of accounting. All governmental funds had total revenues of \$52,917,509 and expenditures of \$55,171,991. The most significant fund is the General Fund, which had an unreserved fund balance at year-end of \$11,142,782 compared to annual expenditures of \$52,355,092.

General Fund Budgeting Highlights

The Library's budget is prepared according to provisions of the Ohio Administrative Code based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2003, the Library amended its general fund budget. The original budgeted revenues were \$52,345,698 and the final budgeted amount was \$49,805,047. Of this \$2,540,651 difference, most was due to decreased property tax collections and reduced Library and Local Government Services Fund revenue distributions. Although the original appropriations were gradually increased during the year, the Library continued to maintain a respectable level of liquidity in the general fund by maintaining unrestricted cash at year-end of 13.31 percent of those revenues.

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Capital Assets

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2003	2002
Land	\$2,680,202	\$2,680,202
Construction in Progress	255,092	279,360
Buildings/Improvements	113,063,055	116,149,363
Furniture/Equipment	309,915	460,789
Computers	809,071	467,203
Vehicles	217,196	317,649
<i>Total</i>	<i>\$117,334,531</i>	<i>\$120,354,566</i>

Total capital assets for the Library as of December 31, 2003 were \$117,334,531, a decrease of \$3,020,035 from 2002. The most significant decrease in capital assets came in the area of buildings and improvements of \$3,086,308. This was due to the annual depreciation on existing buildings. See Note 9 for additional information on capital assets.

Current Financial Related Activities

The Cleveland Public Library, “The People’s University,” celebrated its 134th year in 2003 and we are very proud of the accomplishments that have taken place over those years. The Library’s Main Library is situated on Lake Erie in the heart of Cleveland, Ohio. The Library’s 28 branches and the Mobile Library reflect the Library’s priority: global information in strategically convenient neighborhood locations.

The Cleveland Public Library remains financially stable. However, over the past few years, the Library has had to deal with a steady decline in Library and Local Government Support Fund revenues since 2001 when the “freeze” and lower percentage share was initiated by the State Legislature. These lower revenues were offset by a hiring freeze and other budget cuts, including reductions in capital expenditures, library service materials, and reduced professional education funding.

We plan our finances so that we can pay cash for many of the facilities’ improvements and capital acquisitions and continue to pay cash for all equipment and other major purchases necessary to maintain our level of services. We live within our means and plan ahead knowing that responsible leadership commands that we observe the budget and expend less than the revenues we receive. We have kept the size of our work force to a level where we believe we meet the needs to our patrons.

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

Saturday hours year-round in neighborhood branches

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More services for our children and young adults

New and improved services for our senior citizens

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

Services for the Hispanic community and new Americans

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

Contacting the Library's Finance Department

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

Cleveland Public Library
Cuyahoga County
Statement of Net Assets
December 31, 2003

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$28,114,745
Accrued Interest Receivable	82,390
Accounts Receivable	278,261
Intergovernmental Receivable	14,626,509
Materials and Supplies Inventory	312,511
Prepaid Items	753,771
Property Taxes Receivable	40,872,792
Nondepreciable Capital Assets	2,935,294
Depreciable Capital Assets, Net	114,399,237
<i>Total Assets</i>	202,375,510
Liabilities	
Accounts Payable	2,519,435
Accrued Wages and Benefits	1,387,602
Intergovernmental Payable	492,870
Deferred Revenue	36,400,225
Long-Term Liabilities:	
Due Within One Year	1,887,640
Due In More Than One Year	2,771,757
<i>Total Liabilities</i>	45,459,529
Net Assets	
Invested in Capital Assets, Net of Related Debt	117,334,531
Restricted for:	
Endowments--Expendable	1,960,154
Endowments--Non-Expendable	670,536
Capital Projects	4,288,565
Founders for Programming	4,055,589
Young for the Blind	2,511,487
Endowment for the Blind	1,323,353
Wickwire for the Blind	1,058,468
Other Purposes	842,783
Unrestricted	22,870,515
<i>Total Net Assets</i>	\$156,915,981

See accompanying notes to the basic financial statements

Cleveland Public Library
Cuyahoga County
Statement of Activities
For the Year Ended December 31, 2003

		<u>Program Revenues</u>	<u>Net (Expense) and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Investment Earnings</u>
Governmental Activities			<u>Governmental Activities</u>
Administration and Support	\$19,989,166	\$2,825,470	\$839,304
Public Services	37,859,755	506,356	1,676,212
<i>Totals</i>	<u>\$57,848,921</u>	<u>\$3,331,826</u>	<u>\$2,515,516</u>
		General Revenues	
		Property Taxes Levied for General Purposes	18,041,480
		Grants and Entitlements not Restricted to Specific Programs	28,573,889
		Investment Earnings	277,329
		Miscellaneous	460,827
		<i>Total General Revenues</i>	47,353,525
		<i>Change in Net Assets</i>	(4,648,054)
		<i>Net Assets Beginning of Year</i> - See Note 3	<u>161,564,035</u>
		<i>Net Assets End of Year</i>	<u>\$156,915,981</u>

See accompanying notes to the basic financial statements

Cleveland Public Library

Cuyahoga County

Balance Sheet

Governmental Funds

December 31, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$11,206,687	\$16,908,058	\$28,114,745
Accrued Interest Receivable	82,390	0	82,390
Accounts Receivable	278,261	0	278,261
Intergovernmental Receivable	14,608,017	18,492	14,626,509
Interfund Receivable	17,872	0	17,872
Materials and Supplies Inventory	312,511	0	312,511
Prepaid Items	753,771	0	753,771
Property Taxes Receivable	40,872,792	0	40,872,792
<i>Total Assets</i>	<u>\$68,132,301</u>	<u>\$16,926,550</u>	<u>\$85,058,851</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$2,321,692	\$197,743	\$2,519,435
Accrued Wages and Benefits	1,387,602	0	1,387,602
Interfund Payable	0	17,872	17,872
Intergovernmental Payable	492,870	0	492,870
Deferred Revenue	50,720,494	0	50,720,494
<i>Total Liabilities</i>	<u>54,922,658</u>	<u>215,615</u>	<u>55,138,273</u>
Fund Balances			
Reserved for Encumbrances	2,066,861	324,369	2,391,230
Reserved for Endowments	0	670,536	670,536
Unreserved, Undesignated, Reported in:			
General Fund	11,142,782	0	11,142,782
Special Revenue Funds	0	9,695,927	9,695,927
Capital Projects Fund	0	4,069,019	4,069,019
Permanent Funds	0	1,951,084	1,951,084
<i>Total Fund Balances</i>	<u>13,209,643</u>	<u>16,710,935</u>	<u>29,920,578</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$68,132,301</u>	<u>\$16,926,550</u>	<u>\$85,058,851</u>

See accompanying notes to the basic financial statements

Cleveland Public Library
Cuyahoga County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2003

Total Governmental Funds Balances	\$29,920,578
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	117,334,531
Other long-term assets are not available to pay for current-period expenditures and therefore are not deferred in the funds.	
Delinquent Property Taxes	4,472,567
Intergovernmental	<u>9,847,702</u>
Total	14,320,269
Compensated absences payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(4,659,397)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$156,915,981</u></u>

Cleveland Public Library
Cuyahoga County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2003

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property Taxes	\$17,202,849	\$0	\$17,202,849
Charges for Services	2,825,470	0	2,825,470
Fines and Fees	506,100	256	506,356
Intergovernmental	29,129,162	129,572	29,258,734
Donations	0	823,097	823,097
Investment Earnings	277,329	1,562,847	1,840,176
Miscellaneous	460,827	0	460,827
<i>Total Revenues</i>	<u>50,401,737</u>	<u>2,515,772</u>	<u>52,917,509</u>
Expenditures			
Current:			
Administration and Support	18,721,675	332,188	19,053,863
Public Service	33,556,242	785,171	34,341,413
Capital Outlay	77,175	1,699,540	1,776,715
<i>Total Expenditures</i>	<u>52,355,092</u>	<u>2,816,899</u>	<u>55,171,991</u>
<i>Net Change in Fund Balances</i>	(1,953,355)	(301,127)	(2,254,482)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>15,162,998</u>	<u>17,012,062</u>	<u>32,175,060</u>
<i>Fund Balances End of Year</i>	<u>\$13,209,643</u>	<u>\$16,710,935</u>	<u>\$29,920,578</u>

See accompanying notes to the basic financial statements

Cleveland Public Library
Cuyahoga County

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2003*

Net Change in Fund Balances - Total Governmental Funds (\$2,254,482)

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

Governmental funds report capital outlays as expenditures.

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

Capital Asset Additions	1,112,367
Current Year Depreciation	<u>(4,123,390)</u>

Total (3,011,023)

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

(9,012)

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

Delinquent Property Taxes	838,631
Intergovernmental	<u>(555,273)</u>

Total 283,358

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

343,105

Change in Net Assets of Governmental Activities (\$4,648,054)

Cleveland Public Library
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Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$17,231,846	\$17,053,851	\$17,202,849	\$148,998
Charges for Services	2,600,000	2,600,000	2,717,958	117,958
Fines and Fees	472,000	472,000	477,491	5,491
Intergovernmental	31,513,852	29,160,496	29,143,853	(16,643)
Investment Earnings	303,000	303,000	368,388	65,388
Miscellaneous	225,000	215,700	462,966	247,266
<i>Total Revenues</i>	<u>52,345,698</u>	<u>49,805,047</u>	<u>50,373,505</u>	<u>568,458</u>
Expenditures				
Current:				
Administration and Support	20,172,804	20,368,810	18,299,891	2,068,919
Public Service	33,507,064	34,020,061	32,812,637	1,207,424
Capital Outlay	81,500	156,500	123,190	33,310
<i>Total Expenditures</i>	<u>53,761,368</u>	<u>54,545,371</u>	<u>51,235,718</u>	<u>3,309,653</u>
<i>Excess of Revenues</i>				
<i>Under Expenditures</i>	<u>(1,415,670)</u>	<u>(4,740,324)</u>	<u>(862,213)</u>	<u>3,878,111</u>
Other Financing Sources (Uses)				
Advances In	0	9,300	9,300	0
Advances Out	0	0	(17,872)	(17,872)
<i>Total Other Sources (Uses)</i>	<u>0</u>	<u>9,300</u>	<u>(8,572)</u>	<u>(17,872)</u>
<i>Net Change in Fund Balance</i>	(1,415,670)	(4,731,024)	(870,785)	3,860,239
<i>Fund Balance Beginning of Year</i>	12,393,768	12,393,768	12,393,768	0
Prior Year Encumbrances Appropriated	(4,816,991)	(4,816,991)	(4,816,991)	0
<i>Fund Balance End of Year</i>	<u>\$6,161,107</u>	<u>\$2,845,753</u>	<u>\$6,705,992</u>	<u>\$3,860,239</u>

See accompanying notes to the basic financial statements

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2003

Note 1 – Description of Library and Reporting Entity

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

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

Under the provisions of Statement No. 14 of the Governmental Accounting Standards Board, "The Financial Reporting Entity", the Library is considered to be a related organization of the Board of Education. Management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles (GAAP). Based upon the application of these criteria, management does not believe the Library has any potential component unit that should be included as part of the Library's reporting entity.

Note 2 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Library as a whole.

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

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

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

B. Fund Accounting

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

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

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

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

C. Measurement Focus

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

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

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D. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

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E. Cash and Cash Equivalents

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

Investments are restricted by the provisions of the *Ohio Revised Code*. During 2003, investments of the cash management pool were limited to federal money market funds, treasury notes, federal agency securities, and STAROhio, with the exception of the Library’s endowment funds. The endowment funds are able to invest in common and preferred stock as upheld by a 1975 Cuyahoga County Probate Court Order Granting Authority to Invest. For these endowment funds, according to the Probate Court Order and a ruling from the Cuyahoga County Prosecutor, the Library may invest under *Ohio Revised Code* Sections 2109.37 and 2109.371.

STAROhio is an investment pool managed by the State Treasurer’s Office that allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price that is the price the investment could be sold for on December 31, 2003.

Interest and dividends earned on all funds when the use of such earnings are not restricted by law are recorded in the General Fund except investment earnings attributable to endowment fund balances which are recorded in the endowment funds which are classified as either Special Revenue Funds or Permanent Funds. Interest revenue credited to the endowment funds during 2003 amounted to \$1,562,847.

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

Investments with original maturities of three months or less at the time they are purchased and investments of the cash management pool are presented on the financial statements as cash equivalents.

F. Inventory

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Capital Assets

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

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

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

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

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

I. Inexhaustible Collections and Books

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

J. Interfund Balances

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

K. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the Library's past experience of making termination payments. The amount is based on accumulated sick leave and employee wage rates at year-end, taking into consideration any limits specified in

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the Library's termination policy. The Library's termination policy currently allows for payment of one-half of unused sick hours at time of retirement as governed by the provisions of the Ohio Public Employees Retirement System. The Library's termination policy further allows for additional amounts of unused sick hours to be paid for years of service exceeding 25 years.

L. Accrued Liabilities and Long-term Obligations

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

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

M. Fund Balance Reserves

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

N. Net Assets

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

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

O. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

P. Extraordinary and Special Items

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

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Q. Estimates

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

R. Budgetary Data

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

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

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

Note 3 – Change in Accounting Principles and Restatement of Prior Year Fund Equity

A. Changes in Accounting Principles

For 2003, the Library has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences," and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statement No. 34 creates new basic financial statements for reporting on the Library's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements report the Library's programs as governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002 caused by the conversion to the accrual basis of accounting.

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GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the Library not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of Statement No. 41 did not affect the presentation of the budgetary statements of the Library.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. Restatement of Fund Balance

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the Library as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Nonmajor	Total
Fund Balances, December 31, 2002	\$14,346,067	\$17,012,062	\$31,358,129
Implementation of GASB Interpretation 6	816,931	0	816,931
Adjusted Fund Balances, December 31, 2002	\$15,162,998	\$17,012,062	32,175,060
GASB 34 Adjustments:			
Capital Assets			120,354,566
Long-Term (Deferred) Assets			14,036,911
Long-Term Liabilities			(5,002,502)
Governmental Activities Net Assets, December 31, 2002			\$161,564,035

Note 4 - Budgetary Basis of Accounting

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

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

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

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

Net Change in Fund Balance

	General
GAAP Basis	(\$1,953,355)
Net Adjustment for Revenue Accruals	(144,716)
Unrecorded Cash - End of Year	116,484
Advance In	9,300
Advance Out	(17,872)
Net Adjustment for Expenditure Accruals	5,503,585
Current Year Encumbrances	(4,384,211)
Budget Basis	(\$870,785)

Note 5 – Deposits and Investments

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. 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.

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

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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.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit account, including, but not limited to, passbook accounts;
5. Bonds and other obligation of the State of Ohio;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
9. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

A. Deposits

At year-end, the carrying amount of the Library's deposits was \$677,202 and the bank balance was \$298,430. Of the bank balance, \$168,755 was covered by federal depository insurance. The remaining balance of \$129,675 was uncollateralized and uninsured. Although the pledging bank has an investment and securities pool used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the Library to a successful claim by the FDIC.

B. Investments

The Library's investments are required to be categorized to give an indication of the level of risk assumed by the Library at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Library or its agent in the Library's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Library's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Library's name. The Armada Federal Money Market Fund, Victory Federal Money Market Fund, Money Market Principal Cash and STAROhio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying and Fair Value
Victory Federal Money Market	\$0	\$1,380,881
Armada Federal Money Market	0	153,255
Federal Farm Credit Bank Bonds	1,000,000	1,000,000
Federal Home Loan Bank Bonds	2,000,000	2,000,000
Federal Home Loan Mortgage Corporation Bonds	5,194,819	5,194,819
Federal National Mortgage Association Bonds	5,141,434	5,141,434
Common and Convertible Preferred Stock	7,209,232	7,209,232
Corporate Bonds	1,325,574	1,325,574
U.S. Treasury Notes	1,374,999	1,374,999
Money Market Principal Cash	0	793,388
STAROhio	0	1,863,961
	<u>0</u>	<u>1,863,961</u>
Total	<u>\$23,246,058</u>	<u>\$27,437,543</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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A reconciliation between the classification of cash and cash equivalents and investment on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$28,114,745	\$0
Victory Federal Money Market	(1,380,881)	1,380,881
Armada Federal Money Market	(153,255)	153,255
Federal Farm Credit Bank Bonds	(1,000,000)	1,000,000
Federal Home Loan Bank Bonds	(2,000,000)	2,000,000
Federal Home Loan Mortgage Corporation Bonds	(5,194,819)	5,194,819
Federal National Mortgage Association Bonds	(5,141,434)	5,141,434
Common and Convertible Preferred Stock	(7,209,232)	7,209,232
Corporate Bonds	(1,325,574)	1,325,574
U.S. Treasury Notes	(1,374,999)	1,374,999
Money Market Principal Cash	(793,388)	793,388
STAROhio	(1,863,961)	1,863,961
	\$677,202	\$27,437,543
GASB Statement No. 3		

Note 6 - Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the Library district. Property tax revenue received during 2003 for real and public utility property taxes represents collections of the 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003 on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2003 public utility property taxes which became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all Library operations for the year ended December 31, 2003, was \$6.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Category	Assessed Value
Real Property	\$4,903,039,520
Public Utility Real	357,469,750
Tangible Personal	723,018,067
Total	\$5,983,527,337

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

Taxable personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The Cuyahoga County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Cleveland Public Library. The County Auditor periodically remits to the Library its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003 and for which there is an enforceable legal claim. In the general fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2003 operations and the collections of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and a revenue while on the modified accrual basis the revenue is deferred.

Note 7 - Receivables

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services), interest, and intergovernmental receivables. All receivables are deemed collectible in full.

The Library receives a substantial portion of its intergovernmental revenue from the Library and Local Government Support fund (LLGSF), a State of Ohio fund. A portion of the State income tax is the revenue source for the LLGSF based on a formula within State law. The Cuyahoga County Budget Commission, consisting of the County Auditor, the County Treasurer and the County Prosecutor, allocate LLGSF monies to the nine library districts within Cuyahoga County, based on a determination of need. In 2003, the Library received 41.1909 percent of the countywide total, or \$26,560,337.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
LLGSF	\$13,381,923
Homestead and Rollback	926,420
LBPH and Schweinfurth	<u>318,166</u>
Total	<u><u>\$14,626,509</u></u>

Note 8 – Interfund Balances

The general fund made advances to two nonmajor governmental funds, Library for the Blind and Physically Handicapped LSTA Fund and the Schweinfurth Fund, due to timing of the receipt of grant monies to the nonmajor funds. All interfund balances will be repaid within the following year.

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2003

Interfund balances at December 31, 2003 were as follows:

	<u>Interfund Receivable</u>
<u>Interfund Payable</u>	<u>General Fund</u>
LBPB LSTA Fund	\$13,572
Schweinfurth Fund	4,300
Total	\$17,872

Note 9 – Capital Assets

A summary of changes in capital assets during 2003 follows:

	Balance 12/31/02	Additions	Deletions	Balance 12/31/03
Governmental Activities				
<i>Nondepreciable Capital Assets</i>				
Land	\$2,680,202	\$0	\$0	\$2,680,202
Construction in Progress	279,360	255,092	(279,360)	255,092
<i>Total Nondepreciable Capital Assets</i>	2,959,562	255,092	(279,360)	2,935,294
<i>Depreciable Capital Assets</i>				
Buildings/Improvements	147,974,018	499,300	0	148,473,318
Furniture/Equipment	2,502,061	53,238	(43,108)	2,512,191
Computers	3,001,416	584,097	(6,435)	3,579,078
Vehicles	610,980	0	0	610,980
<i>Total Depreciable Capital Assets</i>	154,088,475	1,136,635	(49,543)	155,175,567
Less Accumulated Depreciation				
Buildings/Improvements	(31,824,655)	(3,585,608)	0	(35,410,263)
Furniture/Equipment	(2,041,272)	(195,100)	34,096	(2,202,276)
Computers	(2,534,213)	(242,229)	6,435	(2,770,007)
Vehicles	(293,331)	(100,453)	0	(393,784)
<i>Total Accumulated Depreciation</i>	(36,693,471)	(4,123,390) *	40,531	(40,776,330)
<i>Total Depreciable Capital Assets, Net</i>	117,395,004	(2,986,755)	(9,012)	114,399,237
<i>Governmental Activities Capital Assets, Net</i>	\$120,354,566	(\$2,731,663)	(\$288,372)	\$117,334,531

*Depreciation expense was charged to governmental functions as follows:

Public Service	\$623,813
Administration	3,499,577
Total	\$4,123,390

Cleveland Public Library
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Notes to the Basic Financial Statements
For Year Ended December 31, 2003

Note 10 – Long-Term Obligations

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

	Outstanding 12/31/2002	Additions	Reductions	Outstanding 12/31/2003	Amount Due in One Year
Compensated Absences Payable	\$5,002,502	\$312,391	\$655,496	\$4,659,397	\$1,887,640

Compensated absences will be paid from the general fund.

Note 11 - Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Library maintains a variety of insurance policies, including coverage for automobiles and equipment, general liability, public officials, property, boilers and machinery as indicated in the table below. The general liability coverage is \$1 million with excess umbrella coverage of an additional \$50 million. Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Company	Type	Deductible	Coverage
Affiliated FM Ins. Co.	Property, Boiler & Machinery	\$100,000	\$365,000,000
Affiliated FM Ins. Co.	Flood/Earthquake	\$100,000 each	\$100,000,000 each
Ohio Casualty	Umbrella Liability	\$0	\$25,000,000
Federal Ins. Co.	Excess	\$0	\$25,000,000
Philadelphia Ins. Co.	General Liability	\$0	\$1,000,000/\$2,000,000
Westfield Ins. Co.	Automobile Liability	\$500/\$1,000	\$1,000,000
Westfield Ins. Co.	Uninsured/Underinsured	\$0	\$25,000
Ohio Casualty/Travelers	Treasurer/Deputys' Surety Bonds	\$0	\$1,000,000 each
United National	Public Officials	\$25,000	\$1,000,000
Ohio Casualty	Employee Fidelity	\$0	\$500,000

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

The Library provides medical and dental insurance on a paid premium basis. Other employee benefits include life insurance, short-term disability insurance and an IRC Section 125 flexible benefit plan.

Note 12 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2003

20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

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

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2003 was 8.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$3,447,586, \$3,358,022, and \$3,246,847 respectively. 91 percent has been contributed for 2003, and 100 percent has been contributed for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$13,225 made by the Library and \$8,296 made by the plan members.

Note 13 – Post-Employment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll; 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

Cleveland Public Library
Cuyahoga County
Notes to the Basic Financial Statements
For Year Ended December 31, 2003

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$1,272,159. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Note 14 – Compensated Absences

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

Note 15 - Litigation

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Board of Trustees
Cleveland Public Library
Cuyahoga County
325 Superior Avenue
Cleveland, Ohio 44114

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Cleveland Public Library, Cuyahoga County, Ohio (the Library) as of and for the year ended December 31, 2003, which collectively comprise the Library's basic financial statements and have issued our report thereon dated June 28, 2004, wherein we noted the Library adopted Government Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the Library's management in a separate letter dated June 28, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the Library's management in a separate letter dated June 28, 2004.

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www.auditor.state.oh.us

This report is intended solely for the information and use of the audit committee, management, and Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

June 28, 2004



**Auditor of State
Betty Montgomery**

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CLEVELAND PUBLIC LIBRARY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 5, 2004**