



**MOUNT STERLING SCHOOL DISTRICT LIBRARY
MADISON COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 1998 - 1997



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Mount Sterling School District Library
Madison County
60 West Columbus Street
Mount Sterling, Ohio 43143

We have audited the accompanying financial statements of the Mount Sterling School District Library, Madison County, Ohio, (the Library) as of and for the years ended December 31, 1998 and December 31, 1997. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Library prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Mount Sterling School District Library, Madison County, Ohio, as of December 31, 1998 and December 31, 1997, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2000 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.

This report is intended solely for the information and use of management, Board of Trustees and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

January 5, 2000

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 1998**

	General
Cash receipts:	
Local taxes	\$201,733
Patron Fines and Fees	1,897
Earnings on Investments	806
Contributions, Gifts, and Donations	7,030
Miscellaneous	3,142
	214,608
Total cash receipts	214,608
Cash disbursements:	
Current:	
Salaries and Benefits	42,304
Supplies	8,960
Purchased and Contract Services	21,471
Library Materials and Information	18,356
Capital Outlay	16,326
Debt Service:	
Redemption of principal	99,000
Interest	4,117
Other debt service	873
	211,407
Total cash disbursements	211,407
Total cash receipts over/(under) cash disbursements	3,201
Fund cash balance, January 1, 1998	87,191
Fund cash balance, December 31, 1998	\$90,392

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGE IN FUND CASH BALANCE - NON-EXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 1998**

	Non-Expendable Trust
Operating cash receipts:	
Miscellaneous	\$8
Total operating cash receipts	8
Operating cash disbursements:	
Salaries and Benefits	0
Supplies	0
Library Materials and Information	0
Capital outlay	0
Total operating cash disbursements	0
Operating income/(loss)	8
Fund cash balance, January 1, 1998	500
Fund cash balance, December 31, 1998	\$508

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 1997**

	General
Cash receipts:	
Local Taxes	\$164,728
Patron Fines and Fees	2,283
Earnings on Investment	1,375
Contributions, Gifts, and Donations	49
Miscellaneous	3,085
	171,520
Total cash receipts	171,520
Cash disbursements:	
Current:	
Salaries and Benefits	42,531
Supplies	5,411
Purchased and Contract Services	16,049
Library Materials and Information	16,931
Capital Outlay	14,809
Debt Service:	
Redemption of principal	150,000
Interest	5,715
Other Objects	4,708
	256,154
Total cash disbursements	256,154
Total cash receipts over/(under) cash disbursements	(84,634)
Other financing receipts/(disbursements):	
Proceeds from sale of public debt	
Other proceeds from sale of public debt	99,000
	99,000
Total other financing receipts/(disbursements)	99,000
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	14,366
Fund cash balance, January 1, 1997	72,825
Fund cash balance, December 31, 1997	\$87,191

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGE IN FUND CASH BALANCE - NON-EXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 1997**

	Non-Expendable Trust
Operating cash receipts:	
Miscellaneous	\$0
Total operating cash receipts	0
Operating cash disbursements:	
Salaries and Benefits	0
Supplies	0
Library Materials and Information	802
Capital outlay	0
Total operating cash disbursements	802
Operating income/(loss)	(802)
Fund cash balance, January 1, 1997	1,302
Fund cash balance, December 31, 1997	\$500

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Mount Sterling School District Library, Madison County, Ohio, (the Library) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Library is directed by an appointed seven-member Board of Trustees. The Library provides the community with various educational and literary resources.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Except gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit and the U.S. Treasury bond are valued at cost.

D. Fund Accounting

The Library uses fund accounting to segregate cash and investments that are restricted as to use. The Library classifies its funds into the following types:

General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Non-Expendable Trust Fund

This fund was established by an estate trust agreement. The Library was given \$500 as the corpus of the trust. The trust funds were used for the purchase of a U.S. Treasury bond in 1997 and a certificate of deposit in 1998. Interest earned on these investments is used for the purchase of books or music at the direction of the Board of Trustees as specified in the trust agreement.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The Ohio Administrative Code requires that each fund be budgeted annually.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, and object level of control. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1.

Encumbrances

The Ohio Administrative Code requires the Library to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Library did not use the encumbrance method of accounting for either year under audit.

A summary of 1998 and 1997 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Library.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Library maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 follows:

	<u>1998</u>	<u>1997</u>
Demand deposits	\$50,900	\$54,763
Certificates of deposit	<u>40,000</u>	<u>32,428</u>
Total deposits	<u>90,900</u>	<u>87,191</u>
Treasury Notes	<u>0</u>	<u>500</u>
Total investments	<u>0</u>	<u>500</u>
Total deposits and investments	<u><u>\$90,900</u></u>	<u><u>\$87,691</u></u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

Investments: U.S. Treasury Notes are held in book-entry form by the Federal Reserve, in the name of the Library's financial institution. The financial institution maintains records identifying the Library as owner of these securities.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 1998 and December 31, 1997 was as follows:

1998 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$271,000	\$214,608	(\$56,392)
Non-Expendable Trust	<u>530</u>	<u>8</u>	<u>(522)</u>
Total	<u><u>\$271,530</u></u>	<u><u>\$214,616</u></u>	<u><u>(\$56,914)</u></u>

1998 Budgeted vs. Actual Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$250,500	\$211,407	\$39,093
Non-Expendable Trust	<u>2,000</u>	<u>0</u>	<u>2,000</u>
Total	<u><u>\$252,500</u></u>	<u><u>\$211,407</u></u>	<u><u>\$41,093</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

1997 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$313,000	\$270,520	(\$42,480)
Non-Expendable Trust	832	0	(832)
Total	\$313,832	\$270,520	(\$43,312)

1997 Budgeted vs. Actual Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$307,900	\$256,154	\$51,746
Non-Expendable Trust	100	802	(702)
Total	\$308,000	\$256,956	\$51,044

4. TAX RECEIPTS

The primary source of revenue for Ohio public libraries is the State Library and Local Government Support Fund (LLGSF). The LLGSF is allocated to each county based on the county's prior intangibles tax of LLGSF revenues, and its population.

The County Budget Commission allocates these funds to the Library based on its needs such as for the construction of new library buildings, improvements, operation, maintenance, or other expenses. The Budget Commission cannot reduce its allocation of these funds to the Library on account of any additional revenues realized by the Library.

5. RETIREMENT SYSTEM

The Public Employees Retirement System of Ohio (PERS) is a state operated, cost-sharing, multiple employer public employee retirement system. PERS provides retirement benefits to vested employees who are eligible to retire based upon years of service. PERS also provides survivor and disability benefits to vested employees.

Contribution rates are also prescribed by the Ohio Revised Code. The Library's PERS members contributed 8.5% of their gross salaries. The Library contributed an amount equal to 13.55% of participants' gross salaries. The Library has paid all contributions required through December 31, 1998.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

6. RISK MANAGEMENT

The Library has obtained commercial insurance for the following risks:

- Comprehensive property and general liability

The Library also provides health insurance and dental and vision coverage to full-time employees through a private carrier.

7. YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the Library's operations as early as fiscal year 1999.

The Library has completed an inventory of computer systems and other equipment necessary to conducting Library operations and has identified such systems as being the library's financial accounting and reporting system. The Library utilizes a PC based system with Quicken software to record monthly receipts and disbursements. The Library is unaware of potential Year 2000 concerns with this software, but based on the limited number of transactions processed monthly, will post receipts and expenditures by hand if the system should prove to be noncompliant.

Madison County distributes a substantial sum of money to the Library in the form of local government support funds collected by the State of Ohio and distributed to Madison County for distribution to the libraries located in that County. The State of Ohio and Madison County are each responsible for remediating there portion of these systems.

To the best of management's knowledge and belief, as of January 5, 2000 the Library experienced no interruption of operations or services related to the Year 2000 issue. However, because of the unprecedented nature of the Year 2000 issue, matters may yet arise, and parties with whom the Library does business may also experience Year 2000 readiness issues that are as yet, unknown.

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

Mount Sterling School District Library
Madison County
60 West Columbus Street
Mount Sterling, Ohio 43143

We have audited the accompanying financial statements of the Mount Sterling School District Library, Madison County, Ohio (the Library), as of and for the years ended December 31, 1998 and December 31, 1997, and have issued our report thereon dated January 5, 2000. We conducted our audits in accordance with generally accepted auditing standards 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 performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the Library in a separate letter dated January 5, 2000.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Library's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 1998-00649-001, 1998-00649-002 and 1998-00649-003.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Library in a separate letter dated January 5, 2000.

This report is intended for the information and use of 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, appearing to read "Jim Petro", with a stylized flourish at the end.

JIM PETRO
Auditor of State

January 5, 2000

**SCHEDULE OF FINDINGS
DECEMBER 31, 1998 AND 1997**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	1998-00649-001
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Monitoring Controls

Monitoring controls comprise regular management and supervisory activities established to oversee whether management's objectives are being achieved, covering operational and legal compliance, as well as financial control objectives. Monitoring controls generally are concerned with users' analysis of reports or other forms of data produced by the accounting system. Such data may indirectly provide assurance as to the reliability of financial reporting information if it conforms with the users' expectations.

There are insufficient monitoring controls performed by management over revenue collection, expenditure processing, and financial reporting by the Clerk/Treasurer to identify unusual fluctuations in the Library's revenues, overdue payments, and the accuracy of the Library's monthly cash reconciliations. The lack of monitoring controls allows for control override by Library employees.

We recommend the Library appoint a member(s) of the Board to periodically review detailed information regarding revenues, expenditures, and monthly cash balance. This review should include a reconciliation of all bank accounts.

Finding Number	1998-00649-002
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Financial Reporting

Accurate monthly cashbook reconciliations were not prepared. The Library's reconciliations contained inaccurate outstanding check lists and did not contain all of the accounts the Library had funds invested in. In addition, we noted several checks which were posted more than once and checks which had been issued but not posted to the ledgers of the Library. These weaknesses resulted in the cash journal prepared by the Clerk/Treasurer being out of balance with the depository.

To ensure all monies are properly accounted for, the Clerk/Treasurer should reconcile the cashbook to the depository monthly and maintain accurate outstanding check and deposits-in-transit lists.

The Library's annual financial reports for the years ended December 31, 1997 and December 31, 1998 were incomplete, inaccurate, and did not balance with the depository. This resulted in inaccurate accounting and reporting of the Library's financial activities.

We recommend the Clerk/Treasurer prepare the annual financial report directly from the cashbook, and cashbook reconciliations. In addition, the Clerk/Treasurer should recalculate all amounts presented on these reports to ensure their accuracy.

**SCHEDULE OF FINDINGS
DECEMBER 31, 1998 AND 1997
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number	1998-00649-003
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Timely Recording

The dates on the canceled check differed from the date posted in the Clerk/Treasurer's check register on 25 of 30 transactions tested during the audit period. Payments should be recorded by the Clerk/Treasurer according to the dates on the checks. This would reduce the likelihood of improper or duplicate posting of checks issued.

We recommend the Clerk/Treasurer record purchases in the check register according to the dates the checks are written.



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MOUNT STERLING SCHOOL DISTRICT LIBRARY

MADISON 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
MARCH 7, 2000**