



**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005



**Auditor of State
Betty Montgomery**

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Seneca East Public Library
Seneca County
14 North Main Street
P.O. Box 572
Attica, Ohio 44807-0572

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Seneca East Public Library, Seneca County, Ohio (the Library), as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Library processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Library because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Seneca East Public Library, Seneca County, Ohio, as of

December 31, 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the General and CD funds thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2006, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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



Betty Montgomery
Auditor of State

April 27, 2006

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

This discussion and analysis of the Seneca East Public Library's (Library) financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2005, within the limitations of the Library's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

Highlight

Key highlight for 2005 is as follows:

- The Library's general receipts are primarily from the State Library and Local Support Fund (LLGSF). These receipts represent respectively \$164,220 or 89 percent of the total cash received for governmental activities during the year.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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Reporting the Library as a Whole

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

These statements report the Library's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Library's financial health. Over time, increases or decreases in the Library's cash position is one indicator of whether the Library's financial health is improving or deteriorating. When evaluating the Library's financial condition, you should also consider other nonfinancial factors as well such as the Library's allocation from the Seneca County Budget Commission, the extent of the Library's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as LLGSF revenues.

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

Governmental Activities – All of the Library's basic services are reported here including general library services. These services are funded primarily by LLGSF revenues and donations.

Reporting the Library's Most Significant Funds

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

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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(Continued)**

The Library as a Whole

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

(Table 1)
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$15,319	\$16,351
Total Assets	15,319	16,351
Net Assets		
Restricted for:		
Capital Outlay	1,767	1,767
Other Purposes	6,834	6,727
Unrestricted	6,718	7,857
Total Net Assets	\$15,319	\$16,351

Net assets of governmental activities decreased \$1,032 or 6 percent during 2005. The primary reason contributing to the decreases in cash balances is due to unanticipated slow growth in the LLGSF receipts.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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(Continued)**

Table 2 reflects the changes in net assets in 2005 compared to 2004.

(Table 2)
Changes in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$3,102	\$3,468
General Receipts:		
Grants and Entitlements Not Restricted	164,220	163,369
Unrestricted Gifts and Contributions	16,089	10,070
Earnings on Investments	330	973
Miscellaneous	611	2,239
Total General Receipts	181,250	176,651
Total Receipts	184,352	180,119
Disbursements:		
Library Services	171,815	174,485
Other		1,277
Capital Outlay	3,993	2,471
Principal Retirement	5,258	5,078
Interest and Fiscal Charges	4,318	4,498
Total Disbursements	185,384	187,809
Decrease in Net Assets	(1,032)	(7,690)
Net Assets, January 1, 2005	16,351	24,041
Net Assets, December 31, 2005	\$15,319	\$16,351

Program receipts represent only 1.7 percent of total receipts and are primarily comprised of patron, fines and fees.

General receipts represent 98.3 percent of the Library's total receipts, and of this amount, over 90 percent are LLGSF. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for Library Services represent the overhead costs of running the Library and the support services provided for the other Library activities. These include the general costs of running the Library.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the Library. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for library services which account for \$171,815 and 92 percent of all governmental disbursements, respectively. The next column of the Statement entitled Program Revenues identify amounts paid by people who are directly charged for the service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

	Governmental Activities			
	Total Cost Of Services	Net Cost of Services	Total Cost Of Services	Net Cost of Services
	2005	2005	2004	2004
Library Services	\$171,815	\$168,713	\$174,485	\$171,017
Other			1,277	1,277
Capital Outlay	3,993	3,993	2,471	2,471
Principal Retirement	5,258	5,258	5,078	5,078
Interest and Fiscal Charges	4,318	4,318	4,498	4,498
Total Expenses	\$185,384	\$182,282	\$187,809	\$184,341

The dependence upon LLGSF is apparent as over 88 percent of governmental activities are supported through these general receipts.

The Library's Funds

Total governmental funds had receipts and other financing sources of \$193,928 and disbursements and other financing uses of \$194,960. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$1,139 as the result of increased costs for salaries and benefits and not achieving anticipated growth in the LLGSF.

General Fund receipts were less than disbursements by \$1,139 indicating that the General Fund is in a deficit spending situation. It was the recommendation of the finance committee and the administration that a reduction in disbursements was preferable to requesting additional funds from the taxpayers. Some of these reductions have already been implemented for 2006 including cuts to the library services and materials.

General Fund Budgeting Highlights

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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(Continued)**

During 2005, the Library amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were below original budgeted receipts due to unexpected slow growth in the LLGSF. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements and other financing uses were budgeted at \$185,311 while actual disbursements and other financing uses were \$185,340. Although receipts failed to live up to expectations, appropriations were not reduced. The Library kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The result is the decrease in fund balance of \$1,139 for 2005.

Debt Administration

At December 31, 2005, the Library's outstanding debt included \$130,476 in a general obligation note with Sutton Bank issued for improvements to buildings and structures. For further information regarding the Library's debt, refer to Note 8 to the basic financial statements.

Current Issues

The challenge for all Library's is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on the State and Local Support Fund (LLGSF) revenues to operate. We reviewed our sources of revenue and determined that increases were unlikely. We then reviewed the disbursement history of the Library. We have made attempts to reduce library services, materials and maintenance.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Library's finances and to reflect the Library's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Christine Bumb, Clerk-Treasurer, Seneca East Public Library, 14 N. Main St., PO Box 572 Attica, OH 44807-0572.

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$15,319
Total Assets	<u>\$15,319</u>
Net Assets:	
Restricted for:	
Capital Projects	1,767
Other Purposes	6,834
Unrestricted	<u>6,718</u>
Total Net Assets	<u>\$15,319</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST PUBLIC LIBRARY
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STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	<u>Program Revenues</u>	<u>Net (Disbursements) Receipts and Changes in Net Assets</u>
<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Governmental Activities</u>
Governmental Activities:		
General government:		
Library Services	\$171,815	\$3,102
Capital Outlay	3,993	(\$168,713)
Debt Service:		
Principal	5,258	(3,993)
Interest and Fiscal Charges	4,318	(5,258)
Total Governmental Activities	<u>\$185,384</u>	<u>(4,318)</u>
 General Receipts:		
Unrestricted Gifts and Contributions		16,089
Grants and Entitlements not Restricted to Specific Programs		164,220
Earnings on Investments		330
Miscellaneous		611
Total General Receipts		<u>181,250</u>
Change in Net Assets		(1,032)
Net Assets Beginning of Year		<u>16,351</u>
Net Assets End of Year		<u>\$15,319</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST PUBLIC LIBRARY
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STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	<u>General</u>	<u>CD Fund</u>	<u>Building Fund</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	<u>\$6,718</u>	<u>\$6,834</u>	<u>\$1,767</u>	<u>\$15,319</u>
Fund Balances:				
Undesignated, Unreserved, Reported in:				
General Fund	6,718			6,718
Special Revenue Fund		6,834		6,834
Capital Projects Fund			1,767	1,767
Total Fund Balances	<u>\$6,718</u>	<u>\$6,834</u>	<u>\$1,767</u>	<u>\$15,319</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN MODIFIED - CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

	<u>General</u>	<u>CD Fund</u>	<u>Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:					
Library and Local Government Support	\$164,220				\$164,220
Patron, Fines and Fees	2,202				2,202
Contributions, Gifts and Donations	16,089				16,089
Earnings on Investments	179	\$151			330
Miscellaneous	1,511				1,511
Total Receipts	<u>184,201</u>	<u>\$151</u>			<u>184,352</u>
Disbursements:					
General government:					
Library Services	171,771	44			171,815
Capital Outlay	3,993				3,993
Debt Service:					
Principal Retirement				5,258	5,258
Interest and Fiscal Charges				4,318	4,318
Total Disbursements	<u>175,764</u>	<u>44</u>		<u>9,576</u>	<u>185,384</u>
Excess of Receipts Over (Under) Disbursements	8,437	107		(9,576)	(1,032)
Other Financing Sources (Uses)					
Transfers In				9,576	9,576
Transfers Out	(9,576)				(9,576)
Total Other Financing Sources (Uses)	<u>(9,576)</u>			<u>9,576</u>	
Net Change in Fund Balances	(1,139)	107			(1,032)
Fund Balances Beginning of Year	<u>7,857</u>	<u>6,727</u>	<u>\$1,767</u>		<u>16,351</u>
Fund Balances End of Year	<u>\$6,718</u>	<u>\$6,834</u>	<u>\$1,767</u>		<u>\$15,319</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENT AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Library and Local Government Support	\$173,954	\$173,508	\$164,220	(\$9,288)
Patron, Fines and Fees	2,500	2,900	2,202	(698)
Contributions, Gifts and Donations		16,089	16,089	
Earnings on Investments	100	146	179	33
Miscellaneous	900	1,469	1,511	42
<i>Total Receipts</i>	<u>177,454</u>	<u>194,112</u>	<u>184,201</u>	<u>(9,911)</u>
Disbursements				
Current:				
Library Services	171,742	171,742	171,771	(29)
Capital Outlay	3,993	3,993	3,993	
<i>Total Disbursements</i>	<u>175,735</u>	<u>175,735</u>	<u>175,764</u>	<u>(29)</u>
<i>Excess of Receipts Over Disbursements</i>	<u>1,719</u>	<u>18,377</u>	<u>8,437</u>	<u>(9,940)</u>
Other Financing Uses				
Transfers Out	(9,576)	(9,576)	(9,576)	
<i>Total Other Financing Uses</i>	<u>(9,576)</u>	<u>(9,576)</u>	<u>(9,576)</u>	
<i>Net Change in Fund Balance</i>	<u>(7,857)</u>	<u>8,801</u>	<u>(1,139)</u>	<u>(9,940)</u>
<i>Fund Balance Beginning of Year</i>	<u>7,857</u>	<u>7,857</u>	<u>7,857</u>	
<i>Fund Balance End of Year</i>		<u>\$16,658</u>	<u>\$6,718</u>	<u>(\$9,940)</u>

See accompanying notes to the basic financial statements

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
CD FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Earnings on Investments	\$50	\$50	\$151	\$101
Disbursements				
Current:				
Library Services	50	50	44	6
<i>Net Change in Fund Balance</i>			107	107
<i>Fund Balance Beginning of Year</i>	6,727	6,727	6,727	
<i>Fund Balance End of Year</i>	<u>\$6,727</u>	<u>\$6,727</u>	<u>\$6,834</u>	<u>\$107</u>

See accompanying notes to the basic financial statements

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 1 – DESCRIPTION OF THE LIBRARY AND REPORTING ENTITY

The Seneca East Public Library, Seneca County, was organized as a school district public library in 1936 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the Seneca East Local School District 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 of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. Control and management of the Library is governed by sections 3375.33 to 3375.39 of the Ohio Revised Code with the administration of the day-to-day operations of the Library being the responsibility of the Director and financial accountability being solely that of the Clerk-Treasurer.

The Library is fiscally independent of the Board of Education, although the Board of Education serves in a ministerial capacity as the taxing authority for the Library. The determination to request approval of a tax levy, the role and purpose(s) of the levy, are discretionary decisions made solely by the Board of Library Trustees. Once those decisions are made, the 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 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 Seneca East Local School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, the financial statements of the Library have been prepared on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The most significant of the Library's accounting policies are described below.

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Library that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Library did not have any Business-type activities.

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

CD Fund – This fund receives interest from the Everett CD which two-thirds of the interest is spent for the children's area to purchase certain equipment.

Building Fund – This fund is used to account for the Behm Building project.

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

C. Basis of Accounting

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

**SENECA EAST PUBLIC LIBRARY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

D. Budgetary Process

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

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

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

E. Cash and Cash Equivalents

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

Investments with original maturities of three months or less at the time they are purchased and investments of the cash management pool are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

During 2005, investments were limited to STAR Ohio and nonnegotiable certificates of deposit. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipt credited to the general fund during 2005 amounted to \$179 which includes \$35 assigned from other Library funds.

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

F. Accumulated Leave

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

G. Employer Contributions to Cost-Sharing Pension Plans

The Library recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. Long-Term Obligations

The Library's modified cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid.

I. Net Assets

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

NOTE 3 – DEPOSITS AND INVESTMENTS

Monies held by the Library are classified by State statute into three categories.

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

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

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

Interim monies held by the Library can be deposited or invested in the following securities:

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

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 3 – DEPOSITS AND INVESTMENTS – (CONTINUED)

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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.

Deposits

The Library has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Library or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2005, the Library had \$12,588 invested in STAR Ohio. STAR Ohio has a maturity of approximately 1 month.

The State Treasury Asset Reserve of Ohio (STAR Ohio) is a safe liquid investment alternative for local governments. Currently, STAR Ohio has approximately 1,600 shareholders. As of the beginning of March 2006, STAR Ohio had \$4.513 billion in assets. Since 1955 it has earned Standard and Poor's highest rating of AAAm.

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 3 – DEPOSITS AND INVESTMENTS – (CONTINUED)

The library has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase be at least one nationally recognized standard rating service.

NOTE 4 – TAX RECEIPTS

The primary source of revenue for Ohio public libraries is the State Library and Local 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 based on of any additional revenues the Library receives.

NOTE 5 - RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the Library contracted with S.K. Miller and Associates and France & Associates/Utica National Insurance Company.

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
S.K. Miller and Associates	Commercial	
	Property	\$2,048,000
	General Liability	\$1,000,000
	Inland Marine	\$38,000
	Vehicle	\$500,000
France and Associates/Utica National Insurance Company	Errors and	
	Omissions	\$1,000,000/\$2,000,000
	Library Officials Liability	\$1,000,000/\$2,000,000

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

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

The Library does not offer coverage for employee health or liability insurance.

NOTE 6 - DEFINED BENEFIT PENSION PLANS

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 6 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The employer contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003, were \$11,325, \$11,310, and \$11,345 respectively. The full amount has been contributed for 2005, 2004, and 2003.

NOTE 7 – POSTEMPLOYMENT BENEFITS

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

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

**SENECA EAST PUBLIC LIBRARY
SENECA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 7 – POSTEMPLOYMENT BENEFITS – (CONTINUED)

The number of active contributing participants in the traditional and combined plans was 376,109. Actual Library contributions for 2005 which were used to fund postemployment benefits were \$3,343. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

NOTE 8 - DEBT

A summary of the note transactions for the year ended December 31, 2005, follows:

	Interest Rate	Principal Outstanding at 12/31/03	Principal Issued	Principal Retired	Principal Outstanding at 12/31/04	Amount Due Within One Year
General Obligation Note	3.24%	\$ 135,734		\$ 5,258	\$ 130,476	\$ 5,416

The purpose of this note is the purchase in 2001 of the Behm Building for a Children's Room. The source of funding will be the annual transfer of \$9,577 from the General Fund to the Debt Service Fund. The maturity date is 2024. A payment schedule is included in the financial report.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	General Obligation Note
2006	\$ 9,577
2007	9,577
2008	9,577
2009	9,577
2010	9,577
2011-2015	47,886
2016-2020	47,886
2021-2024	28,731
Total	<u>\$ 172,388</u>

NOTE 9 – INTERFUND TRANSFERS

All transfers have been included in the financial statements that occur on a regular basis and are consistent with the activities of the fund. The general fund transferred \$9,576 to the debt service fund for the purpose of retiring debt.



**Auditor of State
Betty Montgomery**

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

Seneca East Public Library
Seneca County
14 North Main Street
P.O. Box 572
Attica, Ohio 44807-0572

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Seneca East Public Library, Seneca County, (the Library) as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements and have issued our report thereon dated April 27, 2006, wherein we noted the Library prepared its financial statements on the modified cash basis of accounting. We also noted that the Library uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Library because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

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

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



Betty Montgomery
Auditor of State

April 27, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
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800-282-0370
Facsimile 614-466-4490

SENECA EAST PUBLIC LIBRARY

SENECA 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
MAY 25, 2006**