



Mary Taylor, CPA  
Auditor of State



**NEWTON FALLS PUBLIC LIBRARY  
TRUMBULL COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Newton Falls Public Library  
Trumbull County  
204 South Canal Street  
Newton Falls, Ohio 44444

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 the Newton Falls Public Library, Trumbull County, Ohio (the Library), as of and for the year ended December 31, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Newton Falls Public Library, Trumbull County, Ohio, as of December 31, 2007, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2010, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Mary Taylor, CPA**  
Auditor of State

January 8, 2010

**Newton Falls Public Library**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2007  
Unaudited

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This discussion and analysis of the Newton Falls Public Library's financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2007 within the limitations of the Library's cash basis of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

**Highlights**

Key highlights for 2007 are as follows:

Net assets of governmental activities increased \$80,419, or 13 percent. The General Fund balance decreased by \$2,976 and the Building Fund balance increased by \$23,335. Two new funds were established, the Technology Fund and the Building & Grounds Upgrade Fund.

The Library's general receipts are primarily State Library and Local Government Support Funds (LLGSF) and property taxes. These receipts represent 79 percent and 13 percent, respectively, of the total cash received for governmental activities during the year. The LLGSF funding in 2007 remained the same as 2006 funding.

**Using the Basic Financial Statements**

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

**Report Components**

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

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

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

**Basis of Accounting**

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

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

**Newton Falls Public Library**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2007  
Unaudited

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**Reporting the Library as a Whole**

The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis reflect how the Library did financially during 2007, within the limitations of cash basis of accounting. The statement of net assets presents the cash balances of the governmental activities of the Library at year end. The statement of activities compares cash disbursements with program receipts for each governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Library's general receipts.

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

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

Governmental activities. All of the Library's basic services are reported here, including general public services, purchased and contracted services, library materials and information, and capital outlay. The LLGSF and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

**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 activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Library are categorized as governmental.

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 (the General Fund and the Building Fund) are presented on the financial statements in separate columns.

**Newton Falls Public Library**  
 Management's Discussion and Analysis  
 For the Year Ended December 31, 2007  
 Unaudited

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**The Library as a Whole**

Table 1 provides a summary of the Library's net assets for 2007 compared to 2006 on a cash basis:

(Table 1)

**Net Assets - Cash Basis**

	Governmental Activities	
	2007	2006
<b>Assets</b>		
Cash and Cash Equivalents	\$626,584	\$546,165
Total Assets	\$626,584	\$546,165
<b>Net Assets</b>		
Restricted for:		
Other Purposes	\$60	\$0
Capital Projects	417,288	333,953
Unrestricted	209,236	212,212
Total Net Assets	\$626,584	\$546,165

**Newton Falls Public Library**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2007  
Unaudited

Table 2 reflects the changes in net assets on a cash basis in 2007 and 2006 for governmental activities.

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

	Governmental Activities	
	2007	2006
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$11,274	\$12,329
Operating Grants and Contributions	8,421	4,100
Capital Grants and Contributions	5,000	51,064
Total Program Receipts	<u>24,695</u>	<u>67,493</u>
General Receipts:		
Property Taxes	107,490	117,070
Other Intergovernmental	6,975	825
LLGSF	659,266	659,266
Interest	29,001	20,707
Miscellaneous	4,692	5,282
Total General Receipts	<u>807,424</u>	<u>803,150</u>
Total Receipts	<u>832,119</u>	<u>870,643</u>
Disbursements:		
Salaries & Benefits	540,229	536,004
Supplies	18,669	17,063
Purchased and Contracted Services	81,733	77,902
Library & Materials Information	82,593	66,111
Miscellaneous	7,602	3,574
Capital Outlay	20,874	9,239
Total Disbursements	<u>751,700</u>	<u>709,893</u>
Increase (Decrease) in Net Assets	80,419	160,751
Net Assets Beginning of Year	<u>546,165</u>	<u>385,414</u>
Net Assets, End of Year	<u>\$626,584</u>	<u>\$546,165</u>

Program receipts represent only 3 percent of total receipts and are primarily comprised of patron fines and donations.

General receipts represent 97 percent of the Library's total receipts, and of this amount, over 81 percent are state library and local government funds. Property taxes are 13 percent of general receipts and interest is 4 percent. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for Library services represent the costs of operating the Library and the support services provided for the other Library activities. These include the costs of public service programs, facility operation and maintenance, as well as internal services such as payroll and purchasing.

**Newton Falls Public Library**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2007  
Unaudited

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**Governmental Activities**

If you look at the Statement of Activities on page 8, 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 salaries and benefits, which account for 72 percent of all governmental disbursements. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and donations received by the Library that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by the State Library and Local Government Support Fund, property taxes and other receipts. These net costs are paid from 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 2007	Net Cost of Services 2007	Total Cost Of Services 2006	Net Cost of Services 2006
Current				
Salaries & Benefits	\$540,229	\$540,229	\$536,002	\$536,002
Supplies	18,669	(1,026)	17,063	636
Library & Materials Information	82,593	82,593	66,111	66,111
Purchased & Contracted Services	81,733	81,733	77,902	77,902
Miscellaneous	7,602	7,602	3,574	3,574
Capital Outlay	20,874	15,874	9,239	(41,826)
	<u>\$751,700</u>	<u>\$727,005</u>	<u>\$709,892</u>	<u>\$642,399</u>

The dependence upon the State Library and Local Government Support Fund and property tax receipts is apparent as over 96 percent of governmental activities are supported through these general receipts.

**Newton Falls Public Library**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2007  
Unaudited

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**The Library's Funds**

Total governmental funds had receipts of \$832,119 and disbursements of \$751,700. The fund balance of the General Fund decreased by \$2,976 as the result of the establishment of two new Capital Projects Funds and the replacement of obsolete equipment and technology.

**General Fund Budgeting Highlights**

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

During 2007, the Library did not need to significantly amend its General Fund budget to reflect changing circumstances. Final budgeted receipts did not change from the original budgeted receipts due to conservatism in estimating other receipts.

**Current Issues**

As the preceding information shows, the Library depends heavily on the State of Ohio's Library and Local Government Support Fund (LLGSF). The LLGSF was frozen at the 2006 level for 2007 early in the year resulting in a loss of estimated revenue of \$52,304. The Library will be faced with making changes over the next several years to contain costs and determine what other options are available to the Library to increase financial resources.

**Contacting the Government's Financial Management**

This financial report is designed to provide our citizens, taxpayers, 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 Judy Freeman, Clerk Treasurer, Newton Falls Public Library, 204 South Canal Street, Newton Falls, Ohio 44444.

**Newton Falls Public Library, Trumbull County**

*Statement of Net Assets - Cash Basis*

*December 31, 2007*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$626,584</u>
<i>Total Assets</i>	<u><u>\$626,584</u></u>
<b>Net Assets</b>	
Restricted for:	
Other Purposes	\$60
Capital Projects	417,288
Unrestricted	<u>209,236</u>
<i>Total Net Assets</i>	<u><u>\$626,584</u></u>

*See accompanying notes to the basic financial statements.*



**Newton Falls Public Library, Trumbull County**  
*Statement of Cash Basis Assets and Cash Basis Fund Balances*  
*Governmental Funds*  
*December 31, 2007*

	General	Building Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$209,236	\$357,288	\$60,060	\$626,584
<i>Total Assets</i>	<u>\$209,236</u>	<u>\$357,288</u>	<u>\$60,060</u>	<u>\$626,584</u>
<b>Fund Balances</b>				
Reserved:				
Reserved for Encumbrances	\$18,437			\$18,437
Unreserved:				
Undesignated, Reported In:				
General Fund	190,799			190,799
Special Revenue Funds			\$60	60
Capital Projects Funds		\$357,288	60,000	417,288
<i>Total Fund Balances</i>	<u>\$209,236</u>	<u>\$357,288</u>	<u>\$60,060</u>	<u>\$626,584</u>

*See accompanying notes to the basic financial statements.*

**Newton Falls Public Library, Trumbull County**  
*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2007*

	General	Building Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Property and Other Local Taxes	\$107,490			\$107,490
Intergovernmental	11,975			11,975
LLGSF	659,266			659,266
Patron Fines and Fees	11,274			11,274
Contributions, Gifts, and Donations	1,976	\$6,075	\$370	8,421
Interest	11,741	17,260		29,001
Miscellaneous	4,692			4,692
<i>Total Receipts</i>	<u>808,414</u>	<u>23,335</u>	<u>370</u>	<u>832,119</u>
<b>Disbursements</b>				
Current:				
Salaries & Benefits	540,229			540,229
Supplies	18,359		310	18,669
Purchased & Contracted Services	81,733			81,733
Library & Materials Information	82,593			82,593
Miscellaneous	7,602			7,602
Capital Outlay	20,874			20,874
<i>Total Disbursements</i>	<u>751,390</u>	<u>0</u>	<u>310</u>	<u>751,700</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>57,024</u>	<u>23,335</u>	<u>60</u>	<u>80,419</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In			60,000	60,000
Transfers Out	(60,000)			(60,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(60,000)</u>	<u>0</u>	<u>60,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(2,976)</u>	<u>23,335</u>	<u>60,060</u>	<u>80,419</u>
<i>Fund Balances Beginning of Year</i>	<u>212,212</u>	<u>333,953</u>	<u>0</u>	<u>546,165</u>
<i>Fund Balances End of Year</i>	<u>\$209,236</u>	<u>\$357,288</u>	<u>\$60,060</u>	<u>\$626,584</u>

See accompanying notes to the basic financial statements.

**Newton Falls Public Library, Trumbull County**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual -Budget Basis*  
*General Fund*  
*For the Year Ended December 31, 2007*

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$110,110	\$110,110	\$107,490	(\$2,620)
Intergovernmental	12,001	12,001	11,975	(26)
LLGSF	711,570	711,570	659,266	(52,304)
Patron Fines and Fees	13,000	13,000	11,274	(1,726)
Contributions, Gifts and Donations	2,000	2,000	1,976	(24)
Interest	3,200	3,200	11,741	8,541
Miscellaneous			4,692	4,692
<i>Total receipts</i>	<u>851,881</u>	<u>851,881</u>	<u>808,414</u>	<u>(43,467)</u>
<b>Disbursements</b>				
Salaries and Benefits	564,000	572,296	540,229	32,067
Supplies	23,000	20,642	18,359	2,283
Purchased and Contracted Services	97,448	88,927	81,733	7,194
Library Materials and Information	118,050	115,317	101,030	14,287
Miscellaneous	7,700	7,602	7,602	0
Capital Outlay	10,000	37,537	20,874	16,663
<i>Total Disbursements</i>	<u>820,198</u>	<u>842,321</u>	<u>769,827</u>	<u>72,494</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>31,683</u>	<u>9,560</u>	<u>38,587</u>	<u>29,027</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(60,000)	(60,000)	(60,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(60,000)</u>	<u>(60,000)</u>	<u>(60,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(28,317)	(50,440)	(21,413)	29,027
<i>Fund Balance Beginning of Year</i>	88,622	88,622	88,622	0
Prior Year Encumbrances Appropriated	123,590	123,590	123,590	0
<i>Fund Balance End of Year</i>	<u>183,895</u>	<u>161,772</u>	<u>190,799</u>	<u>29,027</u>

See accompanying notes to the basic financial statements.

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**Newton Falls Public Library**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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**Note 1 – Description of the Library and Reporting Entity**

The Newton Falls Public Library was organized as a school district public library in 1931 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the Newton Falls 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 Newton Falls Board of Education, although the Newton Falls 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 Newton Falls 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 Newton Falls Exempted Village School District.

Component units are legally separate organizations for which the Library is financially accountable. The Library is financially accountable for an organization if the Library appoints a voting majority of the organization's governing board and (1) the Library is able to significantly influence the programs or services performed or provided by the organization; or (2) the Library is legally entitled to or can otherwise access the organization's resources; the Library is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Library is obligated for the debt of the organization. The Library is also financially accountable for any organizations for which the Library approves the budget, the issuance of debt or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Library, are accessible to the Library and are significant in amount to the Library. The Library has no component units.

The Friends of the Newton Falls Public Library, Inc. is a not-for-profit organization with a self-appointing board. The Library is not financially accountable for the organization, nor does the Library approve the budget or the issuance of debt of the organization. The economic resources held by the Friends of the Newton Falls Public Library are not significant to Newton Falls Public Library. Therefore, this organization has been excluded from the reporting entity of the Library.

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

**Note 2 - Summary of Significant Accounting Policies**

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

**Newton Falls Public Library**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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**Note 2 – Summary of Significant Accounting Policies** (continued)

**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. Governmental activities generally are financed through taxes, intergovernmental receipts and other nonexchange transactions.

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

**Fund Financial Statements**

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

**Building Fund**- The building fund accounts for monies set aside by the Board of Library Trustees specifically for major capital and technology improvements for a Children's Learning Center.

**Newton Falls Public Library**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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**Note 2 – Summary of Significant Accounting Policies** (continued)

C. Basis of Accounting

The Library's financial statements are prepared using the 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. Any such modifications made by the Library are described in the appropriate section in this note.

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

D. Budgetary Process

All 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 "Equity in Pooled 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, respectively.

**Newton Falls Public Library**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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**Note 2 – Summary of Significant Accounting Policies** (continued)

During 2007, investments were limited to a STAR Ohio account.

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, 2007.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the general fund during 2007 amounted to \$11,741 which includes \$1,115 assigned from other Library funds.

F. Restricted Assets

Cash, cash equivalents, and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Library had no restricted assets at year end.

G. Inventory and Prepaid Items

The Library reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

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

I. 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 cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

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

K. Net Assets

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

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. The Library has set aside resources restricted for the cost of constructing a Children's Learning Center, improving the existing building and grounds, and to update and expand the Library's Technology Department.

**Newton Falls Public Library**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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**Note 2 – Summary of Significant Accounting Policies** (continued)

Restricted cash resources as of December 31, 2007 are \$417,288.

**L. Fund Balance Reserves**

The Library reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

**Note 3 – Budgetary Basis of Accounting**

The Budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance. The encumbrances outstanding at year end (budgetary basis) amounted to \$18,437 for the General Fund.

**Note 4 – 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 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;
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;

**Newton Falls Public Library**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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**Note 4 – Deposits and Investments** (continued)

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.

At year end, the Library had \$200 in un-deposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Library will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$405,639 of the Library's bank balance of \$506,089 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Library's name.

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, 2007, the Library had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
STAR Ohio	\$ 120,295	Less than 6 months

*Interest rate risk:* Risk arises because the fair market value of investments changes as interest rates change. The Library's investment policy addresses interest rate risk requiring that the Library's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

**Newton Falls Public Library**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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**Note 4 – Deposits and Investments** (continued)

*Credit risk:* Star Ohio carries a rating of AAAM by Standard and Poor's. The Library does not have an 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.

**Note 5 - Property Taxes**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Newton Falls School District. Property tax receipts received in 2007 for real and public utility property taxes represent the collection of 2006 taxes. Real property taxes received in 2007 were levied after October 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2007 represent the collection of 2006 taxes. Public utility real and tangible personal property taxes received in 2007 became a lien on December 31, 2006, were levied after October 1, 2006, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2007 (other than public utility property) represent the collection of 2007 taxes. Tangible personal property taxes received in 2007 were levied after October 1, 2006, on the true value as of December 31, 2006. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the Library. The County Auditor periodically remits to the Library its portion of taxes collected.

**Note 6 – Risk Management**

The Library is exposed to various risks for loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2007, the Library contracted with several companies for various types of insurance coverage as follows:

- Comprehensive Property and Liability
- Errors and Omissions Liability

Settled claims have not exceeded coverage in any of the last four 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.

**Newton Falls Public Library**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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**Note 7 – Defined Benefit Pension Plan**

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

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

For the year ended December 31, 2007, the members of all three plans were required to contribute 9.5 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2007 was 13.85 percent. The Ohio Revised Code provides statutory authority for member and employer contributions. The Library has paid all required contributions through December 31, 2007.

**Note 8 – 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 recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85 percent of covered payroll. The portion of employer contributions allocated to healthcare was 5 percent from January 1 through June 30, 2007 and 6 percent from July 1 through December 31, 2007.

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, 2006, include a rate of return on investments of 6.5 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 .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase .5 to 5 percent annually for the next nine years and 4 percent annually after nine 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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 374,979. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 362,130. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006 (the latest information available) were \$12 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

**Newton Falls Public Library**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2007*

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**Note 8 – Postemployment Benefits** (continued)

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; January 1, 2007 and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

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# Mary Taylor, CPA

Auditor of State

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

Newton Falls Public Library  
Trumbull County  
204 South Canal Street  
Newton Falls, Ohio 44444

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 the Newton Falls Public Library, Trumbull County, Ohio (the Library) as of and for the year ended December 31, 2007, which collectively comprise the Library's basic financial statements and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Library's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Library's internal control over financial reporting.

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

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

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

### **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 have a 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 that are required to be reported under *Government Auditing Standards*.

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

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

**Mary Taylor, CPA**  
Auditor of State

January 8, 2010



**Mary Taylor, CPA**  
Auditor of State

**NEWTON FALLS PUBLIC LIBRARY**  
**TRUMBULL 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**  
**FEBRUARY 18, 2010**