



**Auditor of State
Betty Montgomery**

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Southwest Public Library
Franklin County
3359 Park Street
Grove City, Ohio 43123

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Southwest Public Library, Franklin County, Ohio (the Library), as of and for the year ended December 31, 2004, 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 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 and each major fund of Southwest Public Library, Franklin County, Ohio, as of December 31, 2004, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 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.

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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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 21, 2006

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

This discussion and analysis of Southwest Public Library's (The Library) financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2004, 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.

Highlights

Key highlights for 2004 are as follows:

Net assets of governmental activities increased \$64,791, or 5.9 percent, a significant change from the prior year. The General Fund increased by \$66,523 and the Capital Projects Fund decreased by \$1,732. The increase in the General Fund was the result of stringent cost controls put in place by the Board of Trustees and Management in response to several years of stagnant or declining revenues, especially revenue received from the State of Ohio.

The Library's general receipts are primarily from the State of Ohio. The Library, along with 250 other public libraries in Ohio, receives a portion of the income tax collected by the State of Ohio. These funds are distributed through the Library and Local Government Support Fund (LLGSF). As written into law, the LLGSF is 5.7% of state income tax collected. However, since 2001, the LLGSF has been frozen by the Ohio General Assembly and libraries have not received 5.7% of state income tax collected. These receipts represent 94.9 percent of the total cash received for governmental activities during the year. The remaining revenue received by the Library comes from fines and fees levied on patrons, interest earned on funds invested, donations to the Library, and other miscellaneous sources. The Library has no local property tax. The Library has asked voters to approve a property tax seven times since 1986, but has not been successful.

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.

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Library has elected to present its financial statements on a 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.

Reporting the Library as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2004, 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 non-financial factors as well such as the Library's near total reliance on the LLGSF for revenue, the condition of the Library's capital assets, and the inability of the Library to pass a local property tax.

The statement of net assets and the statement of activities are comprised of governmental activities only.

Governmental activities. Most of the Library's basic services are reported here, including personnel required to conduct programming and assist patrons, purchase of library materials, and the acquisition of goods and services required to provide basic library service to patrons. Receipts from the LLGSF finance most of these activities. Services 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 many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Library are all classified as governmental.

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

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 Library's two major governmental funds are the General Fund and the Capital Projects Fund. The programs reported in governmental funds are identical to those reported in the governmental activities section of the entity-wide statements.

The Library as a Whole

Table 1 provides a summary of the Library's net assets for 2004 compared to 2003 on a modified cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Cash and Cash Equivalents	\$ 1,158,154	\$ 1,093,363
Total Assets	\$ 1,158,154	\$ 1,093,363
Net Assets		
Unrestricted	1,158,154	1,093,363
Total Net Assets	\$1,158,154	\$1,093,363

As mentioned previously, net assets of governmental activities increased \$64,791, or 5.9 percent during 2004. The primary factors contributing to the increase in cash balances are as follows:

- Revenue from the LLGSF increased \$61,221 from 2003 levels.
- Expenditures for governmental activities declined by \$213,817 during 2004. This was primarily due to a decline in expenditures for personnel (including benefits) made possible by a reduction in the workforce as well as reductions in purchased services and library materials.

Table 2 reflects the changes in net assets in 2004. Since this is the first year the Library has prepared financial statements in this format a comparative analysis of the government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets in 2005.

(Table 2)
Changes in Net Assets

	Governmental Activities 2004
Receipts:	
Program Receipts:	
Charges for Services	\$152,729
Total Program Receipts	152,729
General Receipts:	
Library and Local Government Support Fund	4,102,431
Unrestricted Gifts and Contributions	27,179
Earnings on Investments	13,453
Miscellaneous	27,159
Total General Receipts	4,170,222
Total Receipts	4,322,951
Disbursements:	
Library Services:	
Salaries	2,194,331
Employee Fringe Benefits	573,973
Purchased and Contracted Services	810,826
Library Materials and Information	539,603
Supplies	89,574
Other	14,455
Capital Outlay	35,398
Total Disbursements	4,258,160
Change in Net Assets	64,791
Net Assets, January 1, 2004	1,093,363
Net Assets, December 31, 2004	\$1,158,154

Program receipts represent only 3.53 percent of total receipts and are primarily comprised of overdue fines and fees for using photocopiers and printers.

General receipts represent 96.47 percent of the Library's total receipts, and of this amount, 98.37 percent are from the LLGSF. Donations, interest, and miscellaneous expenses make up the balance of the Library's general receipts (1.63 percent).

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

Current disbursements for salary and benefits and purchased and contracted services represent the overhead costs of running the Library. These include salaries and benefits of staff members required to acquire and circulate Library materials, conduct Library related programming for children and adults, provide reference and computer services, and to provide logistical, administrative, and operational support for public service activities. Also included in these expenditures is the purchase of supplies required for the operation of the Library. Purchased services represent a large percentage of the total expenditures and are comprised of maintenance agreements on buildings and equipment, communications, insurance, property and equipment leases, building and site repair, library materials control, and contracted security. Disbursements for Library materials represent the purchase of books, DVDs, books on cassette, books on DVD, electronic databases, music CDs, and electronic books for the use of and checkout by library patrons. Capital expenditures are for permanent improvements and the purchase of major equipment.

The Library's Funds

General Fund receipts were more than disbursements by \$66,523 indicating that the General Fund is in a surplus situation. This was the result of stringent cost controls that have been in place over the past several years in response to declines in the LLGSF experienced since 2002. Significant reductions have been made to personnel expenditures and purchases of library materials. All areas of the budget are under constant review to find areas where expenditures can be reduced without having a materially negative impact on the Library's ability to serve its patrons.

The Capital Projects Fund balance decreased by \$1,732 from 2003, due to no revenue having been received for 2004 with expenditures of \$1,732. These expenditures were made to implement self-checkout and self-serve reserves and consisted of purchases of technology to implement these two services.

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 2004, the Library did amend its General Fund budget. Actual General Fund receipts were below original budgeted receipts due to changes in the LLGSF as a result of the biennial budget adopted by the Ohio General Assembly running from July 1, 2003 until June 30, 2005. The Library did not amend its budget as a result of these changes since steps were taken to reduce expenditures to better align expenses with expected revenue.

Final disbursements were budgeted at \$4,653,095 while actual disbursements were \$4,319,488. Since receipts exceeded expenditures, appropriations were increased. The Library has kept spending below budgeted amounts as demonstrated by the positive variance between the amount budgeted and the amount expended.

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

The Library does not currently keep track of its capital assets and does not present such information.

Debt

At December 31, 2004, the Library had no outstanding debt.

Current Issues

The challenge for all Ohio libraries 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 LLGSF and have very few options available for significantly increasing revenues. The Ohio General Assembly is struggling with serious budget shortfalls and is likely to keep library funding under pressure for the foreseeable future as it seeks to attain a constitutionally mandated balanced budget. There can be no assurances that any future funding mechanisms enacted by the Ohio General Assembly will allow for significant future growth in revenues or even that the current level of funding will be maintained. The Library does not consider an attempt to pass a local property tax levy a viable option in light of the failure of seven previous attempts. Furthermore, property taxes are extremely unpopular in the Library's district and the needs of the local school district will likely make passing a local property tax levy even more difficult in the future. In response to these pressures, the Library will maintain stringent cost controls and continuously look for ways to reduce expenses without materially impacting service to library patrons.

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 Mark M. Shaw, Director/Treasurer, Southwest Public Libraries, 3359 Park Street., Grove City, Ohio 43123.

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2004**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,158,154</u>
<i>Total Assets</i>	<u><u>\$1,158,154</u></u>
Net Assets	
Unrestricted	<u>1,158,154</u>
<i>Total Net Assets</i>	<u><u>\$1,158,154</u></u>

See accompanying notes to the basic financial statements

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED December 31, 2004**

	Program Cash Receipts	Net (Disbursements) Receipts and Changes in Net Assets
Cash Disbursements	Charges for Services	Governmental Activities
Governmental Activities		
Library Services:		
Salaries	\$2,194,331	\$0 (\$2,194,331)
Employee Fringe Benefits	573,973	0 (573,973)
Purchased and Contracted Services	810,826	0 (810,826)
Library Materials and Information	539,603	152,729 (386,874)
Supplies	89,574	0 (89,574)
Other	14,455	0 (14,455)
Capital Outlay	35,398	0 (35,398)
<i>Total Governmental Activities</i>	<u>\$4,258,160</u>	<u>\$152,729 (4,105,431)</u>
General Receipts		
Library and Local Government Support Fund		4,102,431
Unrestricted Gifts and Contributions		27,179
Earnings on Investments		13,453
Miscellaneous		27,159
Total General Receipts		<u>\$4,170,222</u>
<i>Change in Net Assets</i>		\$64,791
<i>Net Assets Beginning of Year</i>		<u>\$1,093,363</u>
<i>Net Assets End of Year</i>		<u>\$1,158,154</u>

See accompanying notes to the basic financial statements

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$990,896	\$167,258	\$1,158,154
<i>Total Assets</i>	<u>\$990,896</u>	<u>\$167,258</u>	<u>\$1,158,154</u>
Fund Balances			
Reserved:			
Reserved for Encumbrances	\$63,060	\$7,222	\$70,282
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	927,836	0	927,836
Capital Projects Funds	0	160,036	160,036
<i>Total Fund Balances</i>	<u>\$990,896</u>	<u>\$167,258</u>	<u>\$1,158,154</u>

See accompanying notes to the basic financial statements

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN MODIFIED-
CASH BASIS FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Capital Projects Fund	Total Governmental Funds
Receipts			
Library and Local Government Support Fund	\$4,102,431	\$0	\$4,102,431
Patron Fines and Fees	152,729	0	152,729
Contributions, Gifts and Donations	27,179	0	27,179
Earnings on Investments	13,453	0	13,453
Miscellaneous	27,159	0	27,159
<i>Total Receipts</i>	<u>4,322,951</u>	<u>0</u>	<u>4,322,951</u>
Disbursements			
Current:			
Library Services:			
Salaries	2,194,331	0	2,194,331
Employee Fringe Benefits	573,973	0	573,973
Purchased and Contracted Services	810,826	0	810,826
Library Materials and Information	539,603	0	539,603
Supplies	89,574	0	89,574
Other	14,455	0	14,455
Capital Outlay	33,666	1,732	35,398
<i>Total Disbursements</i>	<u>4,256,428</u>	<u>1,732</u>	<u>4,258,160</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	66,523	(1,732)	64,791
<i>Fund Balances Beginning of Year</i>	<u>924,373</u>	<u>168,990</u>	<u>1,093,363</u>
<i>Fund Balances End of Year</i>	<u>\$990,896</u>	<u>\$167,258</u>	<u>\$1,158,154</u>

See accompanying notes to the basic financial statements

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Library and Local Government Support	\$4,128,896	\$4,128,896	\$4,102,431	(\$26,465)
Patron Fines and Fees	160,000	160,000	152,729	(7,271)
Contributions, Gifts and Donations	35,000	35,000	27,179	(7,821)
Earnings on Investments	25,000	25,000	13,453	(11,547)
Miscellaneous	15,000	15,000	27,159	12,159
<i>Total receipts</i>	<u>4,363,896</u>	<u>4,363,896</u>	<u>4,322,951</u>	<u>(40,945)</u>
Disbursements				
Current:				
Library Services:				
Salaries	2,251,700	2,251,700	2,194,331	57,369
Employee Fringe Benefits	614,512	614,512	573,973	40,539
Purchased and Contracted Services	964,646	984,995	850,826	134,169
Library Materials	589,307	599,307	562,663	36,644
Supplies	143,131	147,781	89,574	58,207
Other	15,200	16,000	14,455	1,545
Capital Outlay	33,800	38,800	33,666	5,134
<i>Total Disbursements</i>	<u>4,612,296</u>	<u>4,653,095</u>	<u>4,319,488</u>	<u>333,607</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(248,400)</u>	<u>(289,199)</u>	<u>3,463</u>	<u>292,662</u>
<i>Fund Balance Beginning of Year</i>	864,775	864,775	864,775	0
<i>Prior Year Encumbrances Appropriated</i>	<u>59,598</u>	<u>59,598</u>	<u>59,598</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$675,973</u></u>	<u><u>\$635,174</u></u>	<u><u>\$927,836</u></u>	<u><u>\$292,662</u></u>

See accompanying notes to the basic financial statements

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**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Note 1 – Description of the Library and Reporting Entity

The Southwest Public Library, Franklin County, Ohio (the Library) was organized as a school district public library (boundaries are coterminous with South-Western City Schools) in 1923 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the South-Western City Schools 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.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations which are included to ensure the basic financial statement are not misleading. The primary government of the Library consists of all funds, departments, boards, and agencies that are not legally separate from the Library. The Library is a member of a jointly governed organization (Central Crossing Library) with the Southwestern City School District. See Note 10 for further information.

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

Although no requirement exists within the Ohio Administrative Code the Library chose to prepare its financial statements and notes in accordance with the modified cash-basis of accounting as discussed in Note 2B. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) 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, 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.

This basis of accounting is similar to the cash receipts and disbursements basis. The Library recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

As a result of this modified 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 expenses and liabilities) are not recorded in these financial statements.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

A. Fund Accounting

The Library uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. 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

The Library classifies funds primarily financed from grants-in-aid and other nonexchange transactions as governmental funds. The following are the Library's major governmental funds:

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

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

B. Basis of Presentation

For the fiscal year 2004, The Library revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, for financial reporting on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America. However, there are no adjustments to the beginning fund balances since the basis of accounting has not changed. The Library's basic financial statements consist of government-wide financial 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. Governmental activities generally are financed through intergovernmental revenues and other nonexchange revenues.

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Government-wide Financial Statements (continued)

The statement of net assets presents the modified cash balance of the governmental funds 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 object. 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, 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 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. The Library has no non-major funds.

C. Budgetary Process

Ohio law requires the Library to budget and appropriate all funds. The appropriations resolution is the Trustees' authorization to spend resources and sets limits on expenditures plus encumbrances at the level of control selected by the Trustees. The legal level of control has been established at the fund and major 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 revenues to be received during the year. These estimated revenues, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated revenues may be revised during the year if projected increases or decreases in revenue are identified by the 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.

D. 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."

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

D. Cash and Cash Equivalents (continued)

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 2004, investments were an overnight repurchase agreement and STAR Ohio. STAR Ohio investments are recorded at cost.

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, 2004.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2004 amounted to \$13,453.

E. Restricted Assets

Cash, cash equivalents, and investments are reported as restricted when external limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or enabling legislation. There were no restricted assets as of December 31, 2004.

F. Inventory and Prepaid Items

On the modified cash-basis of accounting inventories of supplies are reported as disbursements when purchased. These items are not reflected as assets in the accompanying financial statements.

G. 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.

H. 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.

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

I. Employer Contributions to Cost-Sharing Pension Plans

The Library recognizes the disbursement for its 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.

J. Long-Term Obligations

The Library's modified cash basis financial statements do not report liabilities for long-term obligations. Lease payments are reported when paid.

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. 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.

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 - Deposits and Investments

Ohio law restricts deposits and investments to the following:

1. Commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts;
2. Money market deposits;
3. Savings accounts or certificates of deposit;
4. United States Treasury securities, or securities of its agencies or instrumentalities the federal government guarantees;
5. No-load money market mutual funds consisting exclusively of obligations described in (4) above and repurchase agreements secured by such obligations;
6. Bonds and obligations of the State of Ohio or Ohio local governments;
7. The State Treasurer's investment pool (STAR Ohio, a Rule 2-a7-like pool);
8. Certain bankers' acceptances and commercial paper notes;
9. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

An investment must mature within five years from the purchase date unless matched to a specific Library obligation or debt and must be purchased with the expectation it will be held to maturity. Investments may only be made through specified dealers and institutions.

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

Note 3 - Deposits and Investments (continued)

Deposits: At year-end, the carrying amount of the Library's deposits was \$36,116 and the bank balance was \$40,050. The entire bank balance was covered by federal depository insurance.

Investments: The table below categorizes investments to indicate the level of counterparty credit risk the Library assumed at year end. Category one includes investments insured or registered or for which Library or its agent holds the securities in the Library's name. Category two includes uninsured and unregistered investments for which the counterparty's trust department or an agent holds securities in the Library's name. Category three includes uninsured and unregistered investments for which the counterparty or its trust department or agent holds securities not in the Library's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Unclassified	Carrying Value
Repurchase Agreement	\$274,171	\$0	\$274,171
Star Ohio	0	848,367	848,367
Total Investments	\$274,171	\$848,367	\$1,122,538

Note 4 – Library and Local Government Support Fund Revenues

The primary source of revenue for Ohio public libraries is the State Library and Local Government Support Fund (LLGSF). The State allocates LLGSF 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 2004, the Library contracted with two companies for various types of insurance coverage as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Westfield Corporation	Commercial Property	\$13,291,000
Westfield Corporation	General Liability	4,000,000
Westfield Corporation	Vehicle	1,000,000
Utica	Errors and Omissions	3,000,000
Utica	Library Officials	3,000,000
Westfield Corporation	Fidelity and Deposit	20,000

There were no claims 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.

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

Note 6 - Defined Benefit Pension Plan

A. Ohio Public Employees Retirement System

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 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 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) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2004 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Library's required contributions for pension obligations for all plans for the years ended December 31, 2004, 2003, and 2002 were \$285,160, \$297,193, and \$319,232 respectively; 100 percent has been contributed for 2004, 2003, and 2002. No contributions were made to the member directed plan.

Note 7 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

Note 7 - Postemployment Benefits (continued)

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 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 and 6.00 percent annually for the next eight years and 4.00 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.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$147,863. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, were \$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 – Operating Lease

The Library leases the building that houses the Westland Area Library located at 4740 West Broad Street, Columbus, Ohio 43228. The building is part of the Lincoln Village Shopping Center and is owned by Nationwide Development Corporation. The Library disbursed \$251,499 to pay lease costs for the year ended December 31, 2004. Future lease payments are as follows:

Year	Amount
2005	\$256,907
2006	256,907
2007	256,907
2008	256,907
2009	256,907
2010-2014	<u>1,027,628</u>
Total	<u><u>\$2,312,613</u></u>

Part of the Library's lease payment is for property taxes incurred by Nationwide Development. Future additional property taxes will cause the amounts listed above to increase by the amount of the property tax attributable to the 4740 West Broad Street location. It is not possible to predict the timing and amount of those increases.

**SOUTHWEST PUBLIC LIBRARY
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

Note 9 – Contingent Liabilities

The Library was not a party to any lawsuits or any litigation as of December 31, 2004 and is not currently a defendant in any legal case.

Note 10 – Jointly Governed Organization

During 2004, the Library jointly operated the Central Crossing Library with the South-Western City School District (SWCS), Grove City, Ohio. The Central Crossing Library is part of Central Crossing High School and is located at 4500 B Big Run Road, South, Grove City, Ohio 43123. The Library entered into an agreement with SWCS in 2000 that established the jointly governed organization. The building is owned and operated by SWCS and SWCS is responsible for all physical plant maintenance and upkeep. The Library operates Central Crossing Library as a public library in the evenings and on Saturdays and SWCS operates it as a high school library during school days. The library is responsible for staffing Central Crossing when it operates as a public library and for purchasing the library materials. SWCS is responsible for staffing during school days, maintenance and custodial work, and the acquisition and operation of all technology required to operate Central Crossing.

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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*

Southwest Public Library
Franklin County
3359 Park Street
Grove City, Ohio 43123

To the Board of Trustees:

We have audited the financial statements of the governmental activities and each major fund of the Southwest Public Library, Franklin County, Ohio, (the Library) as of and for the year ended December 31, 2004, which collectively comprise the Library's basic financial statements and have issued our report thereon dated July 21, 2006, wherein we noted the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. In a separate letter to the Library's management dated July 21, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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*.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Southwest Public Library
Franklin County
Independent Accountants' Report on Internal Control over
Financial Reporting and on Compliance and other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

July 21, 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

SOUTHWEST PUBLIC LIBRARY

FRANKLIN 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
OCTOBER 10, 2006**