



**Auditor of State
Betty Montgomery**

**MUSKINGUM COUNTY LIBRARY SYSTEM
MUSKINGUM COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government – Wide Financial Statements - 2004:	
Statement of Net Assets – Cash Basis.....	11
Statement of Activities – Cash Basis.....	12
Governmental Financial Statements - 2004:	
Statement of Cash Basis Assets and Cash Basis Fund Balances.....	13
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Fund Balances – Governmental Funds.....	14
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual - Budget Basis – General Fund.....	15
Government – Wide Financial Statements - 2003:	
Statement of Net Assets – Cash Basis.....	16
Statement of Activities – Cash Basis.....	17
Governmental Financial Statements - 2003:	
Statement of Cash Basis Assets and Cash Basis Fund Balances.....	18
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Fund Balances – Governmental Funds.....	19
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual - Budget Basis – General Fund.....	20
Notes to the Basic Financial Statements.....	21
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	27
Schedule of Prior Audit Findings	29

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Muskingum County Library System
Muskingum County
220 North Fifth Street
Zanesville, Ohio 43701

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 Muskingum County Library System, Muskingum County, Ohio (the Library), as of and for the years ended December 31, 2004 and 2003, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 1, 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 basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Muskingum County Library System, Muskingum County, Ohio, as of December 31, 2004 and 2003, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 1 describes.

For the years ended December 31, 2004 and 2003, the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2005, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 21, 2005

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2004 and 2003
Unaudited

The discussion and analysis of the Muskingum County Library System's financial performance provides an overview of the Library's financial activities for the years ended December 31, 2004 and 2003, within the limitations of the Board's cash basis of accounting. The intent of this discussion and analysis is to look at the Library's financial performance as a whole.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Net assets increased \$224,927 in 2004.
- General Receipts accounted for \$3,237,133 or 97 percent of all receipts. Program receipts in the form of charges for services or operating grants and contributions accounted for \$110,979 or 3 percent of total receipts.
- The Library had \$3,123,185 in disbursements relating to governmental activities; only \$110,979 of these disbursements is offset by program specific charges for services or operating grants and contributions.

Key financial highlights for 2003 are as follows:

- Net assets increased \$244,225 in 2003.
- General Receipts accounted for \$3,188,509 or 95 percent of all receipts. Program receipts in the form of charges for services, operating grants and contributions accounted for \$171,025 or 5 percent of total receipts.
- The Library had \$3,115,309 in disbursements relating to governmental activities; only \$171,025 of these disbursements is offset by program specific charges for services or operating grants and contributions.
- The Library received a bequest in the amount of \$49,259 for the benefit of the Roseville Branch.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Muskingum County Library System's financial position. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions on a cash basis of accounting.

The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis provide information about the activities of the Library as a whole, presenting both an aggregate view of the Board's finances and a longer-term view of those finances. Governmental financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. Governmental financial statements report the Library's most significant funds individually and the Library's non-major funds in a single column. The Library's major funds are the General Fund, Building & Repair Fund and the Automation Fund.

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2004 and 2003
Unaudited

Reporting the Library as a Whole

Statement of Net Assets – Cash Basis and Statement of Activities – Cash Basis

The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis reflect how the Library did financially during 2004 and 2003. These two statements report the Library's net assets and changes in those assets. The change in net assets is important because it tells the reader whether the financial position of the Library as a whole has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. These factors must be considered when assessing the overall health of the Library.

In the Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis, the Library presents a single type of activity, governmental activities. All of the Library's programs and services are reported here, including general public services, purchases and contracted services, library materials and information, and capital outlay. These services are primarily funded by intergovernmental receipts.

Reporting the Library's Most Significant Funds

Fund Financial Statements

The analysis of the Library's major funds begins on page 13. Fund financial statements provide detailed information about the Library's major funds. The Library uses several funds to account for its financial transactions. However, these fund financial statements focus on the Library's most significant funds. The Library's major governmental funds are the General Fund, Building & Repair Fund and Automation Fund.

Governmental Funds The Library's activities are reported in the governmental financial statements, which focus on how the money flows into and out of the funds as well as balances available for spending in future periods. The funds are reported on a cash basis of accounting. The governmental financial statements provide a short-term view of the Library's general government operations and the basic services being provided. Government financial statements help the user to determine whether there are more or fewer financial resources that can be spent in the near future to finance library programs.

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2004 and 2003
Unaudited

The Library as a Whole

Recall that the Statement of Net Assets provides the perspective for the Library as a whole. Table 1 provides a summary of the Library's net assets for 2004 compared to 2003 and 2003 compared to 2002.

Table 1
Net Assets – Cash Basis

	Governmental Activities		
	2004	2003	2002
Assets			
Equity in Pooled Cash and Cash Equivalents	\$4,645,565	\$4,420,638	\$4,176,413
Total Assets	4,645,565	4,420,638	4,176,413
Net Assets			
Restricted	3,981,638	4,010,890	3,709,459
Unrestricted	663,927	409,748	466,954
	\$4,645,565	\$4,420,638	\$4,176,413

In 2004, total assets increased \$224,927 or approximately 5 percent over 2003. This increase can be attributed to several factors. 2004 was the first full year of use of the Unique Management Services, a collection agency specializing in the collection of library fines and return of library materials. The Board also continued to hold open 2 part-time positions due to increased concerns regarding library funding.

In 2003 total assets increased \$244,225 or approximately 6 percent. This increase can be attributed to several factors. In May 2003, the Library began using the services of Unique Management Services. Also in May of 2003, the Board of Trustees approved an increase in fines for print and audio materials in the amount of \$.05 per day to \$.10 per day or an approximate 100 percent increase. 2003 was also the first full year of use of the debit card system for payment of copies made in the computer lab and copiers on the main floor of John McIntire Library.

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2004 and 2003
Unaudited

Table 2 shows the changes in net assets for the years ended December 31, 2004 and December 31, 2003.

Table 2
Changes in Net Assets

	Governmental Activities		
	2004	2003	2002
Receipts:			
Program Cash Receipts			
Charges for Services	\$106,685	\$98,495	\$81,124
Operating Grants and Contributions	4,294	72,530	12,847
Total Program Cash Receipts	110,979	171,025	93,971
General Receipts			
Government Grants-in-Aid, LLGSF	3,130,766	3,111,318	3,144,624
Interest	93,148	64,587	96,421
Rental Income	7,200	5,700	0
Miscellaneous Receipts	6,019	6,904	25,761
Total General Receipts	3,237,133	3,188,509	3,266,806
Total Receipts	3,348,112	3,359,534	3,360,777
Disbursements:			
Public Services			
General Public Services	1,950,798	1,963,881	1,861,504
Purchased and Contracted Services	452,990	400,677	395,685
Library Materials and Information	587,021	625,562	592,425
Capital Outlay	132,376	125,189	262,722
Total Disbursements	3,123,185	3,115,309	3,112,336
Change in Net Assets	\$224,927	\$244,225	\$248,441

During fiscal year 2004, program receipts show a significant decrease relevant to 2003. This change is largely because of a bequest in the amount of \$49,259 to the Roseville Branch Library made in 2003. Charges for services can be seen to be increasing in 2004 and 2003 when compared to 2002 mainly because of the use of Unique Management Services for collection of overdue fines and fees. In addition, daily late fees increased from \$.05 to \$.10 for a 100% increase.

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2004 and 2003
Unaudited

In 2004, general receipts represented 97 percent of the Library's overall receipts. In 2003, the general receipts represented 95 percent of the Library's total receipts. General receipts in both 2004 and 2003 were made up almost entirely of the Library and Local Government Support Fund monies. Since these monies are provided by the State, it can be seen how any decreases in this funding source could have a substantial impact on the services the Library can provide.

Total disbursements have been fairly flat with only less than .5 percent increase in disbursements in 2004 from 2003. This can be attributed to the uncertainty in the State budget and the Board's conservative approach in spending in reaction to the State budget.

The Statement of Activities – Cash Basis shows the cost of program services and the charges for services, operating grants and contributions offsetting those services. Table 3 shows the total of the services and the net cost of services. The net cost of services identifies the cost of those services supported by unrestricted government grants-in-aid, LLGSF.

Table 3
Governmental Activities

	Total Cost of Services 2004	Net Cost of Services 2004
	<u>2004</u>	<u>2004</u>
Public Services		
General Public Services	\$1,950,798	\$1,839,819
Purchased and Contracted Services	452,990	452,990
Library Materials and Information	587,021	587,021
Capital Outlay	<u>132,376</u>	<u>132,376</u>
Total Disbursements	<u><u>\$3,123,185</u></u>	<u><u>\$3,012,206</u></u>

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2004 and 2003
Unaudited

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Public Services		
General Public Services	\$1,963,881	\$1,792,856
Purchased and Contracted Services	400,677	400,677
Library Materials and Information	625,562	625,562
Capital Outlay	<u>125,189</u>	<u>125,189</u>
Total Disbursements	<u><u>\$3,115,309</u></u>	<u><u>\$2,944,284</u></u>

	Total Cost of Services <u>2002</u>	Net Cost of Services <u>2002</u>
Public Services		
General Public Services	\$1,861,504	\$1,767,533
Purchased and Contracted Services	395,685	395,685
Library Materials and Information	592,425	592,425
Capital Outlay	<u>262,722</u>	<u>262,722</u>
Total Disbursements	<u><u>\$3,112,336</u></u>	<u><u>\$3,018,365</u></u>

Over 95 percent of the total costs of Library operations are derived from general receipts and as stated previously, this consists of State funding through the Library and Local Government Support Funds.

The Library District Funds

The Library's governmental fund financial statements are accounted for using the cash basis of accounting. The Library's major governmental funds are the General Fund, the Building & Repair Fund and the Automation Fund. A review of these funds reflects an increase in the fund balance of the General Fund of \$254,091, \$1,694 in the Building & Repair Fund, and a decrease of \$8,157 in the Automation Fund for 2004. The relatively small changes in fund balance in both the Building & Repair Fund and the Automation Fund reflect the increase in disbursements from those funds due to the fairly stagnant LLGSF fund and the Board's increasing reliance on those funds.

In comparison to 2003, the General Fund and Automation Fund reflected a decrease of \$61,834 and \$4,142 respectively. The Building & Repair Fund reflects an increase of \$287,843. This is mainly due to a transfer-in from the General Fund. Again, the relatively small change in fund balance in the Automation Fund reflects the increase in disbursements from this fund due to the fairly stagnant LLGSF fund and the Board's increasing reliance on the Automation Fund.

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2004 and 2003
Unaudited

General Fund Budgeting Highlights

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

During the course of both 2004 and 2003, the Library amended both its appropriations and estimated receipts. The budgetary statement reflects both the original and final amounts appropriated.

Due to the certainty of the majority of the Library's funding, Local Library Government Service Funding (LLGSF), there is no major budget versus actual variances in regards to revenues. The total expenditure variances of \$392,818 and \$387,820 for 2004 and 2003, respectively, were a result of conservative spending measures on behalf of the Library's management as a result of the uncertainty of the LLGSF funding levels in future periods.

Economic Factors

Funding from the State of Ohio for the Library and Local Government Support Fund has been stagnant in 2004 and 2003 and will continue to be flat for the first half of 2005. In both 2004 and 2003, the Library remained closed on Sunday afternoons and continued to not fill 2 part-time positions. The Library has decreased disbursements in many areas of the budget and moved disbursements to both the Building & Repair Fund and the Automation Fund as need dictated.

The Library will be challenged to continue to maintain the current level of services and programs due to fairly stagnant receipts and ordinary inflation. The Board and Library administration must maintain careful financial planning and prudent fiscal management in order to provide services needed and balance the budget annually.

Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances and to show the Library's accountability for the money it receives to all those interested in the Library's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Stacey Russell, Clerk-Treasurer, 220 North Fifth Street, Zanesville, Ohio 43701.

This page intentionally left blank.

Muskingum County Library System, Muskingum County

Statement of Net Assets - Cash Basis

December 31, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,645,565</u>
<i>Total Assets</i>	<u><u>\$4,645,565</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$3,929,935
Permanent Fund	1,000
Other Purposes	50,703
Unrestricted	<u>663,927</u>
<i>Total Net Assets</i>	<u><u>\$4,645,565</u></u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2004

	<u>Cash</u> <u>Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements)</u> <u>Receipts and</u> <u>Changes</u> <u>in Net Assets</u>
		<u>Charges</u> <u>for Services</u> <u>and Sales</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental Activities				
Public Services:				
General Public Services	\$1,950,798	\$106,685	\$4,294	(\$1,839,819)
Purchased and Contracted Services	452,990			(452,990)
Library Materials and Information	587,021			(587,021)
Capital Outlay	<u>132,376</u>			<u>(132,376)</u>
<i>Total Governmental Activities</i>	<u><u>\$3,123,185</u></u>	<u><u>\$106,685</u></u>	<u><u>\$4,294</u></u>	<u><u>(3,012,206)</u></u>
 General Receipts				
				3,130,766
				93,148
				7,200
				<u>6,019</u>
				<u>3,237,133</u>
				224,927
				<u>4,420,638</u>
				<u><u>\$4,645,565</u></u>

See accompanying notes to the basic financial statements

Muskingum County Library System Library, Muskingum County

Statement of Cash Basis Assets and Cash Basis Fund Balances

Governmental Funds

December 31, 2004

	<u>General</u>	<u>Building & Repair Fund</u>	<u>Automation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$659,211	\$2,765,053	\$1,080,194	\$141,107	\$4,645,565
<i>Total Assets</i>	<u>\$659,211</u>	<u>\$2,765,053</u>	<u>\$1,080,194</u>	<u>\$141,107</u>	<u>\$4,645,565</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	\$128,165	\$33,394			\$161,559
Reserved for Permanent Fund				\$1,000	1,000
Unreserved, Undesignated (Deficit), Reported in:					
General Fund	531,046				531,046
Special Revenue Funds				50,703	50,703
Capital Projects Funds		2,731,659	1,080,194	84,688	3,896,541
Permanent Fund				4,716	4,716
<i>Total Fund Balances</i>	<u>\$659,211</u>	<u>\$2,765,053</u>	<u>\$1,080,194</u>	<u>\$141,107</u>	<u>\$4,645,565</u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Building & Repair Fund	Automation Fund	Other Governmental Funds	Total Governmental Funds
Receipts					
Intergovernmental	\$3,130,766	\$	\$	\$	\$3,130,766
Patron Fines and Fees	106,685				106,685
Contributions, Gifts and Donations	4,294				4,294
Earnings on Investments	10,954	54,833	25,062	2,299	93,148
Rental Income	7,200				7,200
Miscellaneous	6,019				6,019
<i>Total Receipts</i>	<u>3,265,918</u>	<u>54,833</u>	<u>25,062</u>	<u>2,299</u>	<u>3,348,112</u>
Disbursements					
Current:					
Public Services:					
General Public Services	1,950,499		299		1,950,798
Purchased and Contracted Services	413,421	35,569	4,000		452,990
Library and Materials Information	587,021				587,021
Capital Outlay	60,886	17,570	28,920	25,000	132,376
<i>Total Disbursements</i>	<u>3,011,827</u>	<u>53,139</u>	<u>33,219</u>	<u>25,000</u>	<u>3,123,185</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	254,091	1,694	(8,157)	(22,701)	224,927
<i>Fund Balances Beginning of Year</i>	<u>405,120</u>	<u>2,763,359</u>	<u>1,088,351</u>	<u>163,808</u>	<u>4,420,638</u>
<i>Fund Balances End of Year</i>	<u>\$659,211</u>	<u>\$2,765,053</u>	<u>\$1,080,194</u>	<u>\$141,107</u>	<u>\$4,645,565</u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Cash Receipts, Cash Disbursements and Changes
In Cash Basis Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$3,127,618	\$3,127,618	\$3,130,766	\$3,148
Patron Fines and Fees	90,800	106,500	106,685	185
Services Provided to Others	7,200	7,200	7,200	0
Contributions, Gifts and Donations	10,000	7,000	4,294	(2,706)
Earnings on Investments	10,000	10,850	10,954	104
Miscellaneous	6,000	6,000	6,019	19
<i>Total receipts</i>	<u>3,251,618</u>	<u>3,265,168</u>	<u>3,265,918</u>	<u>750</u>
Disbursements				
Current:				
Public Services:				
General Public Services	2,059,464	2,062,670	1,950,499	112,171
Purchased and Contracted Services	515,715	531,144	413,421	117,723
Library and Materials Information	734,961	736,982	587,021	149,961
Capital Outlay	46,598	73,849	60,886	12,963
<i>Total Disbursements</i>	<u>3,356,738</u>	<u>3,404,645</u>	<u>3,011,827</u>	<u>392,818</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(105,120)</u>	<u>(139,477)</u>	<u>254,091</u>	<u>393,568</u>
<i>Fund Balance Beginning of Year</i>	250,000	250,000	250,000	0
Prior Year Encumbrances Appropriated	<u>155,120</u>	<u>155,120</u>	<u>155,120</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$300,000</u></u>	<u><u>\$265,643</u></u>	<u><u>\$659,211</u></u>	<u><u>\$393,568</u></u>

See accompanying notes to the basic financial statements.

Muskingum County Library System, Muskingum County
Statement of Net Assets - Cash Basis
December 31, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,420,638</u>
<i>Total Assets</i>	<u><u>\$4,420,638</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$3,959,945
Permanent Fund	1,000
Other Purposes	49,945
Unrestricted	<u>409,748</u>
<i>Total Net Assets</i>	<u><u>\$4,420,638</u></u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County

Statement of Activities - Cash Basis

For the Year Ended December 31, 2003

		Program Cash Receipts		Net (Disbursements)
	Cash	Charges for Services and Sales	Operating Grants and Contributions	Receipts and Changes in Net Assets
	Disbursements			Governmental Activities
Governmental Activities				
Public Services:				
General Public Services	\$1,963,881	\$98,495	\$72,530	(\$1,792,856)
Purchased and Contracted Services	400,677			(400,677)
Library Materials and Information	625,562			(625,562)
Capital Outlay	125,189			(125,189)
<i>Total Governmental Activities</i>	\$3,115,309	\$98,495	\$72,530	(2,944,284)
General Receipts				
				3,111,318
				64,587
				5,700
				6,904
				<i>Total General Receipts</i> 3,188,509
				244,225
				4,176,413
				\$4,420,638

See accompanying notes to the basic financial statements

Muskingum County Library System Library, Muskingum County
Statement of Cash Basis Assets and Cash Basis Fund Balances
Governmental Funds
December 31, 2003

	<u>General</u>	<u>Building & Repair Fund</u>	<u>Automation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$405,120	\$2,763,359	\$1,088,351	\$163,808	\$4,420,638
<i>Total Assets</i>	<u>\$405,120</u>	<u>\$2,763,359</u>	<u>\$1,088,351</u>	<u>\$163,808</u>	<u>\$4,420,638</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	\$155,120	\$	\$	\$	\$155,120
Reserved for Permanent Fund				1,000	1,000
Unreserved, Undesignated					
Reported in:					
General Fund	250,000				250,000
Special Revenue Funds				49,945	49,945
Capital Projects Funds		2,763,359	1,088,351	108,235	3,959,945
Permanent Funds				4,628	4,628
<i>Total Fund Balances</i>	<u>\$405,120</u>	<u>\$2,763,359</u>	<u>\$1,088,351</u>	<u>\$163,808</u>	<u>\$4,420,638</u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
*Statement of Cash Receipts, Cash Disbursements and Changes in
Cash Basis Fund Balances*

Governmental Funds

For the Year Ended December 31, 2003

	<u>General</u>	<u>Building & Repair Fund</u>	<u>Automation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts					
Intergovernmental	\$3,111,318	\$	\$	\$	\$3,111,318
Patron Fines and Fees	98,495				98,495
Contributions, Gifts and Donations	23,271			49,259	72,530
Rental Income	5,700				5,700
Earnings on Investments	9,303	40,564	12,621	2,099	64,587
Miscellaneous	6,904				6,904
<i>Total Receipts</i>	<u>3,254,991</u>	<u>40,564</u>	<u>12,621</u>	<u>51,358</u>	<u>3,359,534</u>
Disbursements					
Current:					
Public Services:					
General Public Services	1,963,881				1,963,881
Purchased and Contracted Services	396,177		1,500	3,000	400,677
Library and Materials Information	625,562				625,562
Capital Outlay	51,446	32,480	15,263	26,000	125,189
<i>Total Disbursements</i>	<u>3,037,066</u>	<u>32,480</u>	<u>16,763</u>	<u>29,000</u>	<u>3,115,309</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>217,925</u>	<u>8,084</u>	<u>(4,142)</u>	<u>22,358</u>	<u>244,225</u>
Other Financing Sources (Uses)					
Transfers In		279,759			279,759
Transfers Out	(279,759)				(279,759)
<i>Total Other Financing Sources (Uses)</i>	<u>(279,759)</u>	<u>279,759</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(61,834)	287,843	(4,142)	22,358	244,225
<i>Fund Balances Beginning of Year</i>	<u>466,954</u>	<u>2,475,516</u>	<u>1,092,493</u>	<u>141,450</u>	<u>4,176,413</u>
<i>Fund Balances End of Year</i>	<u>\$405,120</u>	<u>\$2,763,359</u>	<u>\$1,088,351</u>	<u>\$163,808</u>	<u>\$4,420,638</u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Cash Receipts, Cash Disbursements and Changes
In Cash Basis Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$3,376,290	\$3,111,318	\$3,111,318	\$0
Patron Fines and Fees	80,700	97,400	98,495	1,095
Contributions, Gifts and Donations	7,500	17,600	23,271	5,671
Rental Income	0	6,000	5,700	(300)
Earnings on Investments	15,000	9,400	9,303	(97)
Miscellaneous	5,000	10,000	6,904	(3,096)
<i>Total Receipts</i>	<u>3,484,490</u>	<u>3,251,718</u>	<u>3,254,991</u>	<u>3,273</u>
Disbursements				
Current:				
Public Services:				
General Public Services	2,008,928	2,027,711	1,963,881	63,830
Purchased and Contracted Services	518,686	526,242	396,177	130,065
Library and Materials Information	776,004	779,090	625,562	153,528
Capital Outlay	52,016	69,761	51,446	18,315
<i>Total Disbursements</i>	<u>3,355,634</u>	<u>3,402,804</u>	<u>3,037,066</u>	<u>365,738</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>128,856</u>	<u>(151,086)</u>	<u>217,925</u>	<u>369,011</u>
Other Financing Sources (Uses)				
Transfers Out	0	(300,000)	(279,759)	20,241
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>(300,000)</u>	<u>(279,759)</u>	<u>20,241</u>
<i>Net Change in Fund Balance</i>	128,856	(451,086)	(61,834)	389,252
<i>Fund Balance Beginning of Year</i>	250,000	250,000	250,000	0
Prior Year Encumbrances Appropriated	216,954	216,954	216,954	0
<i>Fund Balance End of Year</i>	<u>\$595,810</u>	<u>\$15,868</u>	<u>\$405,120</u>	<u>\$389,252</u>

See accompanying notes to the basic financial statements.

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2004 and 2003

Note 1 - Description of the Reporting Entity

The Muskingum County Library System, Muskingum County (the Library) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of Ohio. The Library is directed by a seven-member Board of Trustees appointed by the Muskingum County Commissioners and the Muskingum County Common Pleas Court. The Library provides the community with various educational and literary resources.

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

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations included to assure that the basic financial statements 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.

Component units are legally separate organizations for which the Library is financially accountable. Component units may also include organizations that are fiscally dependent upon the Library in that the Library approves their budget, the issuance of their debt or the levying of their taxes. The Library has no component units.

Note 2 – Summary of Significant Accounting Policies

These financial statements and notes are presented on a cash basis of accounting. The Library recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Government Accounting Standards Board (GASB) pronouncements.

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 government wide financial statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

A. Basis of Presentation

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

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

The statement of net assets presents the financial condition of the governmental activities of the Library at year end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the Library's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts are charges paid by the recipient of the goods or services offered by the function, grants and contributions that are restricted to meeting the operational or capital requirements of a particular function and interest earned on grants and contributions

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2004 and 2003

that is required to be used to support a particular function. Receipts which are not classified as program receipts are presented as general receipts of the Library. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general receipts of the Library.

Governmental 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. Governmental financial statements are designed to present financial information of the Library at this more detailed level. The focus of governmental 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 fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The Library only uses governmental fund types.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Library's major governmental funds:

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

Building & Repair Fund – This fund is used to account for receipts that are restricted for the acquisition, construction or repair of major capital projects.

Automation Fund – This fund is used to account for receipts that are restricted for computer technology system upgrades.

C. Basis of Accounting

The government-wide statement of net assets and statement of activities and the fund financial statements are presented using the cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, receipts, and disbursements when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the cash basis of accounting, certain assets and their related receipts and certain liabilities and their disbursements are not recorded in these financial statements. If the Library utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting.

D. Cash and Investments

To improve cash management, cash received by the Library is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Library's records.

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2004 and 2003

The Library followed Ohio statutes for the allocation of interest earnings among the Library's funds. All funds received interest based a prorated share of the pools fund balance at the time of the receipt of the interest.

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

E. Fund Balance Reserves

The Library reserves those portions of fund balance which are legally segregated for a specific future use or which are not available for appropriation or expenditure. Fund reserves have been established for encumbrances and the portion of the Permanent Fund which is nonexpendable.

F. Budgetary Data

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Library may appropriate. The appropriation resolution is the Library's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Library. The legal level of control has been established by the Library at the fund level. The Clerk/Treasurer maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Clerk/Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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

Note 3 – Change in Format

The Library has adopted a new financial statement format prescribed by GASB Statement No. 34 and included the related disclosures.

Note 4 - Grants-In-Aid and Tax Receipts

The primary source of revenue for Ohio public libraries is the Library and Local Government Support Fund (LLGSF). The LLGSF is 5.7% of the State personal income tax. It is currently frozen at 2001 fiscal year level. The LLGSF is allocated to each county based on the county's prior year LLGSF revenues and its population. The County Budget Commission allocates these funds to the Library based on its needs such as for 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 any additional revenues the Library receives.

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2004 and 2003

Note 5 - Deposits and Investments

Ohio Law restricts deposits and investments to the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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 securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Library, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Clerk/Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits: For the years ended December 31, 2004 and 2003, the carrying amount of the Library's deposits was \$4,645,565 and \$4,420,638, and the bank balance was \$4,682,253 and \$4,489,216, respectively. Of the bank balances:

1. \$400,000 for 2004 and \$206,728 for 2003 was covered by federal depository insurance; and
2. \$4,282,253 for 2004 and \$4,282,488 for 2003 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Library to a successful claim by the FDIC.

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2004 and 2003

Note 6 – Risk Management

The Muskingum County Library System has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Crime, including employee dishonesty and theft, disappearance and destruction
- Inland marine

Note 7 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension 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% per year). Under the member-directed plan, members accumulate retirement assets equal to the value of 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 pension 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 pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6701 or 800-222-7377.

For the years ended December 31, 2004 and 2003, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2004 and 2003 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

Note 8 – Post-employment Benefits

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional pension or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Post-employment Benefit (OPEB) 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 post-retirement 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.

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, 2003, 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

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2004 and 2003

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 4.00 percent annually.

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

The number of active contributing participants in the traditional pension and combined plans was 369,885. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively. The Library has paid all contributions required through December 31, 2004.

Note 9 – Jointly Governed Organization

The Southeastern Ohio Library Organization (SOLO) is a regional library system created and jointly governed according to the provisions of the Ohio Revised Code §3375.90 through §3375.93. SOLO is composed of fourteen legally-separate libraries within Southeast Ohio. Barnesville Hutton Memorial Library, Bellaire Public Library, Caldwell Public Library, Guernsey County District Library, Kate Love Simpson Library, Martins Ferry Public Library, Monroe County District Library, Muskingum County Library System, Perry County District Library, Public Library of Steubenville and Jefferson County, Puskarich Public Library, Newark Public Library, St. Clairsville Public Library, and Washington County Public Library. SOLO is governed by a fourteen member Board of Trustees selected by the member libraries which consists of the library administrator or representative from each member library. SOLO provides annual training workshops for member library employees, technical training and assistance and a central graphic center. The Muskingum County Library System's control over budgeting and financing of SOLO is limited to its voting authority and its representation on SOLO's Board of Trustees.

The Library's Board terminated its contract with SOLO, effective June 30, 2004.

Note 10 – Related Party Transactions

The Library paid an annual fee to SOLO, a jointly governed organization, of which the Library was a member until June 30, 2004. On July 21, 2003, the Library paid \$4,000 in dues for fiscal year 2004.



**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***

Muskingum County Library Association
Muskingum County
220 North Fifth Street
Zanesville, Ohio 43701

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 Muskingum County Library System, Muskingum County, Ohio (the Library), as of and for the years ended December 31, 2004 and 2003, which collectively comprise the Library's basic financial statements and have issued our report thereon dated July 21, 2005, wherein we noted the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standards Board Statement No. 34. 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 to express our opinion on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Library's basic 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*.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Muskingum County Library System
Muskingum 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 audit committee, management and the 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, 2005

MUSKINGUM COUNTY LIBRARY SYSTEM
MUSKINGUM COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-001	Incorrect posting of budgetary information	Yes	Corrected



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

MUSKINGUM COUNTY LIBRARY SYSTEM

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 23, 2005**