



**Auditor of State
Betty Montgomery**

**PORTSMOUTH PUBLIC LIBRARY
SCIOTO COUNTY
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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Portsmouth Public Library
Scioto County
1220 Gallia Street
Portsmouth, Ohio 45662

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Portsmouth Public Library, Scioto 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 1, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Portsmouth Public Library, Scioto County, Ohio, as of December 31, 2004 and the respective changes in modified cash basis financial position and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 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 accounting principles generally accepted in the United States of America 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 11, 2005

Portsmouth Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2004

This discussion and analysis of the Portsmouth Public Library's 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 of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

Highlights

Key highlights for 2004 are as follows:

Net assets of governmental activities increased \$40,052, or 3.9 percent, a slight change from the prior year. The fund most affected by the increase in cash and cash equivalents was the General Fund.

The Library's general receipts are primarily State Library and Local Government Support Fund receipts. These receipts represent respectively 94 percent of the total cash received for governmental activities during the year. These receipts for 2004 changed very little compared to 2003.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion

Portsmouth Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2004

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 activity. Program receipts include grants and contributions restricted to meeting the operational requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Library's general receipts.

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

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

Governmental activities. All of the Library's basic services are reported here, including library services, support services, capital outlay, and debt service. State grants finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Library's Most Significant Funds

Fund financial statements provide detailed information about the Library's major funds – not the Library as a whole. The Library establishes separate funds to better manage its 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 governmental.

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

Portsmouth Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2004

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:

	Governmental Activities	
	2004	2003
Assets		
Cash and Cash Equivalents	\$341,505	\$310,611
Investments	724,778	715,620
Total Assets	\$1,066,283	\$1,026,231
Net Assets		
Restricted for:		
Debt Service	\$515	\$675
Capital Projects	19,738	19,738
Other Purposes	40,856	19,835
Unrestricted	1,005,174	985,983
Total Net Assets	\$1,066,283	\$1,026,231

As mentioned previously, net assets of governmental activities increased \$40,052 or 3.9 percent during 2004.

Table 2 reflects the changes in net assets in 2004. Since the Library did not prepare financial statements in this format for 2003, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Portsmouth Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Changes in Net Assets

	Governmental Activities 2004
	2004
Receipts:	
Program Receipts:	
Operating Grants and Contributions	\$47,207
Total Program Receipts	47,207
General Receipts:	
Intergovernmental	2,983,790
Unrestricted Gifts and Contributions	35,598
Interest	11,471
Miscellaneous	99,497
Total General Receipts	3,130,356
Total Receipts	3,177,563
Disbursements:	
Salaries	1,412,756
Employee Fringe Benefits	497,638
Purchased and Contracted Services	427,718
Library Material and Information	388,999
Supplies	70,361
Other	8,316
Capital Outlay	112,946
Principal Retirement	197,074
Interest and Fiscal Charges	21,703
Total Disbursements	3,137,511
Increase (Decrease) in Net Assets	40,052
Net Assets, January 1, 2004	1,026,231
Net Assets, December 31, 2004	\$1,066,283

Program receipts represent only 1.5 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as contributions, gifts, and donations.

General receipts represent 98.5 percent of the Library's total receipts, and of this amount, over 95 percent are intergovernmental receipts. Miscellaneous receipts, unrestricted gifts and interest make up the balance of the Library's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Library and the support services provided for the other Government activities. These include the costs of public service programs, facility operation and maintenance, and library branch offices, as well as internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, we try to limit these costs to 100% of General Fund unrestricted receipts.

Portsmouth Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2004

Governmental Activities

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the Library. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for salaries and employee fringe benefits, which account for 45 and 16 percent of all governmental disbursements, respectively. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Library that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by the State Library and Local Government Support Fund and other receipts. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

	Total Cost Of Services 2004	Net Cost of Services 2004
Current		
Salaries	\$1,412,756	\$1,412,756
Employee Fringe Benefits	497,638	497,638
Purchased and Contract Services	427,718	416,500
Library Materials and Information	388,999	355,577
Supplies	70,361	68,450
Other	8,316	8,316
Capital Outlay	112,946	112,290
Principal Retirement	197,074	197,074
Interest and Fiscal Charges	21,703	21,703
Total Expenses	\$3,137,511	\$3,090,304

The dependence upon intergovernmental receipts is apparent as over 93 percent of governmental activities are supported through these general receipts.

The Library's Funds

Total governmental funds had receipts of \$3,398,680 and disbursements of \$3,358,628. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$19,191 as the result of efforts to contain costs and careful spending to compensate for the stagnancy of receipts from the Library and Local Government Support Fund (LLGSF).

General Fund receipts were more than disbursements by \$19,191 indicating that efforts to contain cost, and limit expenses were successful. In light of the continued uncertainty regarding the Local Government Support Fund, it was the recommendation of the Audit, Budget, and Expenditure committee and the administration that a continued reduction in disbursements was preferable to requesting additional funds from the taxpayers. Some of these reductions have already been implemented for 2005 including cuts in purchasing new materials and reductions in health care benefits for employees. These cuts will not

eliminate the need for additional funds (or additional cuts) in the future if the growth in the Local Government Support Funding is reduced or remains stagnant.

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 amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were more than original budgeted receipts due to unexpected increases in Patron Fines and Fees and Contributions, Gifts, and Donations from local area foundations. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$3,434,562 while actual disbursements were \$3,653,179. Although receipts failed to live up to expectations, appropriations were not reduced. The Library kept spending very close to budgeted amounts as demonstrated by the original budget amounts as compared to the final budgeted amounts.

Capital Assets and Debt Administration

Capital Assets

The Library does not currently keep track of its capital assets and infrastructure.

Debt

At December 31, 2004, the Library's outstanding debt included \$209,596 in general obligation notes issued for renovation and expansion of the main library. For further information regarding the Library's debt, refer to Note 7 to the basic financial statements.

Current Issues

As the preceding information shows, the Library heavily depends on intergovernmental monies. With the Local Government Support Fund being frozen at the 2004 level for the calendar year 2005, and a cut by 5 percent each month for the calendar year 2006 as well as the first six months of calendar year 2007, the Library will be faced with making changes over the next several years to contain costs and determine what other options are available to the Library to increase financial resources.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Library's finances and to reflect the Library's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Linda Woods-Jones, Clerk-Treasurer, Portsmouth Public Library, 1220 Gallia Street, Portsmouth, Ohio 45662, or e-mail at lwoods@mail.portsmouth.lib.oh.us.

Portsmouth Public Library, SciotoCounty

Statement of Net Assets - Modified Cash Basis

December 31, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$341,505
Investments	<u>724,778</u>
<i>Total Assets</i>	<u><u>\$1,066,283</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$19,738
Debt Service	515
Other Purposes	40,856
Unrestricted	<u>1,005,174</u>
<i>Total Net Assets</i>	<u><u>\$1,066,283</u></u>

See accompanying notes to the basic financial statements

Portsmouth Public Library, Scioto County
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2004

	Program Cash Receipts				Net (Disbursements)
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Receipts and Changes in Net Assets
Governmental Activities					
Current					
Salaries	\$1,412,756	\$	\$	\$	(\$1,412,756)
Employee Fringe Benefits	497,638				(497,638)
Purchased and Contract Services	427,718		11,218		(416,500)
Library Materials and Information	388,999		33,422		(355,577)
Supplies	70,361		1,911		(68,450)
Other	8,316				(8,316)
Capital Outlay	112,946		656		(112,290)
Debt Service:					
Principal Retirement	197,074				(197,074)
Interest and Fiscal Charges	21,703				(21,703)
<i>Total Governmental Activities</i>	<u>\$3,137,511</u>	<u>\$0</u>	<u>\$47,207</u>	<u>\$0</u>	(3,090,304)
		General Receipts			
		Intergovernmental			2,983,790
		Unrestricted Gifts and Contributions			35,598
		Interest			11,471
		Miscellaneous			99,497
		<i>Total General Receipts</i>			<u>3,130,356</u>
		Change in Net Assets			40,052
		<i>Net Assets Beginning of Year</i>			<u>1,026,231</u>
		<i>Net Assets End of Year</i>			<u>\$1,066,283</u>

See accompanying notes to the basic financial statements

Portsmouth Public Library, Scioto County
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$280,396	\$61,109	\$341,505
Investments	724,778		724,778
<i>Total Assets</i>	<u>\$1,005,174</u>	<u>\$61,109</u>	<u>\$1,066,283</u>
Fund Balances			
Reserved:			
Reserved for Encumbrances	\$542,015	\$23,580	\$565,595
Unreserved:			
Undesignated, Reported in:			
General Fund	463,159		463,159
Capital Projects Funds		19,738	19,738
Fiduciary Funds		17,791	17,791
<i>Total Fund Balances</i>	<u>\$1,005,174</u>	<u>\$61,109</u>	<u>\$1,066,283</u>

See accompanying notes to the basic financial statements

Portsmouth Public Library, Scioto County
Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Other Governmental Funds	Total Governmental Funds
Cash Receipts			
Intergovernmental	\$2,983,790	\$	\$2,983,790
Patron Fines and Fees	91,819		91,819
Contributions, Gifts and Donations	35,598	47,207	82,805
Earnings on Investments	11,471		11,471
Miscellaneous	7,678		7,678
<i>Total Cash Receipts</i>	<u>3,130,356</u>	<u>47,207</u>	<u>3,177,563</u>
Cash Disbursements			
Current:			
Salaries	1,412,756		1,412,756
Employee Fringe Benefits	497,638		497,638
Purchased and Contracted Services	420,901	6,817	427,718
Library Material & Information	368,691	20,307	388,998
Supplies	69,199	1,162	70,361
Other	8,317		8,317
Capital Outlay	112,546	400	112,946
Debt Service:			
Principal Retirement		197,074	197,074
Interest and Fiscal Charges		21,703	21,703
<i>Total Cash Disbursements</i>	<u>2,890,048</u>	<u>247,463</u>	<u>3,137,511</u>
<i>Excess of Cash Receipts Over/(Under) Cash Disbursements</i>	<u>240,308</u>	<u>(200,256)</u>	<u>40,052</u>
Other Financing Sources/(Uses)			
Transfers In		221,117	221,117
Transfers Out	(221,117)		(221,117)
<i>Total Other Financing Sources (Uses)</i>	<u>(221,117)</u>	<u>221,117</u>	<u>(0)</u>
<i>Net Change in Fund Balances</i>	19,191	20,861	40,052
<i>Fund Balances Beginning of Year</i>	<u>985,983</u>	<u>40,248</u>	<u>1,026,231</u>
<i>Fund Balances End of Year</i>	<u>\$1,005,174</u>	<u>\$61,109</u>	<u>\$1,066,283</u>

See accompanying notes to the basic financial statements

Portsmouth Public Library, Scioto 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
	Original	Final		Final Budget
				Positive (Negative)
Receipts				
Intergovernmental	\$2,980,872	\$2,983,790	\$2,983,790	\$0
Patron Fines and Fees	65,000	91,819	91,819	0
Contributions, Gifts and Donations	2,500	35,598	35,598	0
Earnings on Investments	16,000	11,471	11,471	0
Miscellaneous	4,000	7,678	7,678	0
<i>Total Receipts</i>	<u>3,068,372</u>	<u>3,130,356</u>	<u>3,130,356</u>	<u>0</u>
Disbursements				
Current:				
Salaries	1,775,863	1,765,863	1,765,863	0
Employee Fringe Benefits	458,808	514,363	514,363	0
Purchased and Contracted Services	460,647	493,206	493,206	0
Library Material and Information	421,954	445,951	443,451	2,500
Supplies	82,212	82,618	82,618	0
Other	0	8,317	8,317	0
Capital Outlay	235,079	124,244	124,244	0
<i>Total Disbursements</i>	<u>3,434,563</u>	<u>3,434,562</u>	<u>3,432,062</u>	<u>2,500</u>
<i>Excess of Receipts Over/(Under) Disbursements</i>	<u>(366,191)</u>	<u>(304,206)</u>	<u>(301,706)</u>	<u>(2,500)</u>
Other Financing Sources/(Uses)				
Transfers Out	0	0	(221,117)	(221,117)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>(221,117)</u>	<u>(221,117)</u>
<i>Net Change in Fund Balance</i>	(366,191)	(304,206)	(522,823)	(223,617)
<i>Fund Balance Beginning of Year</i>	985,983	985,983	985,983	0
Prior Year Encumbrances Appropriated	672,308	672,308	672,308	0
<i>Fund Balance End of Year</i>	<u>\$1,292,100</u>	<u>\$1,354,085</u>	<u>\$1,135,468</u>	<u>(\$223,617)</u>

See accompanying notes to the basic financial statements

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**PORTSMOUTH PUBLIC LIBRARY
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The constitution and laws of the State of Ohio establish the rights and privileges of the Portsmouth Public Library, Scioto County (the Library), as a body corporate and politic. The Mayor of the City of Portsmouth appoints a six-member Board of Trustees to govern the Library. 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

The Library utilizes the standards of Governmental Accounting Standards Board Statement 14 for determining the reporting entity.

A reporting entity is comprised of the primary government, component units, and other organizations included to ensure that the basic financial statements of the Library are not misleading. The primary government consists of all funds of 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 on the Library in that the Library approves their budget, the issuance of debt or the levying of their taxes. The Library has no component units.

Fund Accounting

The Library's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific Library functions or activities. The operation of each fund is accounted for within a separate set of self-balancing set of accounts.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Cash disbursements are assigned to the fund from which they are paid. The difference between governmental fund assets and cash disbursements is reported as fund balance. The following is the Library's major Governmental Fund:

General Fund

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

**PORTSMOUTH PUBLIC LIBRARY
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds (Continued)

The other governmental funds of the Library account for grants and other resources, debt service, and capital projects, whose use is restricted to a particular purpose.

Basis of Presentation

For fiscal year 2004 the Library has implemented the provisions of GASB 34 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 and GASB 38, for certain financial statement note disclosures. However, there are no adjustments to beginning fund balances since the basis of accounting has not changed. The Library's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. These statements include all financial activities of the Library.

The statement of net assets-modified cash basis presents the modified cash basis financial condition of governmental activities of the Library at year-end. The statement of activities-modified cash basis presents a comparison between direct cash disbursements and program cash receipts for each program or function of the Library's governmental activities. Direct cash disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program cash receipts include grants and contributions that are restricted to meeting the operational requirements of a particular program. Cash receipts which are not classified as program cash receipts are presented as general cash receipts of the Library. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each governmental function is self-financing or draws from the general cash receipts of the Library.

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 fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Basis of Accounting

The Library prepares its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and 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. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**PORTSMOUTH PUBLIC LIBRARY
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Receipts – Exchange and Non-Exchange Transactions

Cash receipts resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified cash basis when the exchange takes place. On a modified cash basis, receipts are recorded in the year in which the resources are received.

Non-exchange transactions, in which the Library receives value without directly giving equal value in return, include grants, entitlements and donations. On a modified cash basis, receipts from grants, entitlements and donations are recognized in the year in which the monies have been received.

Cash Disbursements

On the modified cash basis of accounting, disbursements are recognized at the time payments are made.

Budgetary Process

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

Cash and Cash Equivalents and Investments

The Library's accounting basis includes investments as assets. Accordingly, the Library does not record investment purchases as disbursements or investment sales as receipts. The Library records gains or losses at the time of sale as receipts or disbursements, respectively.

The Library values the certificate of deposit at cost. Money market mutual funds (including STAROhio) are recorded at share values the mutual fund reports.

Capital Assets and Depreciation

Capital assets (fixed assets) acquired or constructed for the Library are recorded as disbursements at the time of acquisition. However, under the modified cash basis of accounting, capital assets and the related depreciation are not reported separately on the financial statements.

Compensated Absences

Vacation and sick leave benefits are not accrued under the cash basis of accounting as previously described. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees.

Long-Term Obligations

In general, notes are recorded as cash disbursements in the basic financial statements when paid.

Net Cash Assets

Net cash assets represent the difference between assets and liabilities. Net cash assets consist of cash receipts reduced by cash disbursements for the current year. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Library or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Restricted for Other Purposes is comprised of net assets restricted for grants. The Library applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**PORTSMOUTH PUBLIC LIBRARY
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions

Exchange transactions between funds are reported as cash receipts in the seller funds and as cash disbursements in the purchaser funds. Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. In the government-wide financial statements transfers within governmental activities are eliminated.

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2004</u>
Demand deposits	\$323,714
Certificates of deposit	<u>17,791</u>
Total deposits	<u>341,505</u>
STAROhio	724,778
Total investments	<u>724,778</u>
Total deposits and investments	<u><u>\$1,066,283</u></u>

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation; or collateralized by the financial institution’s public entity deposit pool.

Investments: Investments in STAROhio are not evidenced by securities existing in physical or book-entry form.

NOTE 3- BUDGETARY BASIS FUND BALANCES

Differences between the budgetary basis fund balances and fund cash balances are due to encumbrances. The table below presents those differences for the Library’s Major Fund:

	<u>General Fund</u>
Budgetary Basis Fund Balance	\$1,135,468
Encumbrances	<u>(130,294)</u>
Fund Cash Balance	<u><u>\$1,005,174</u></u>

NOTE 4 - GRANTS-IN-AID AND TAX RECEIPTS

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 any additional revenues the Library receives.

**PORTSMOUTH PUBLIC LIBRARY
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 5 - RISK MANAGEMENT

Commercial Insurance

The Portsmouth Public Library has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

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

NOTE 6 – DEFINED BENEFITS PENSION PLAN

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 year ended December 31, 2004, 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 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

NOTE 7 – POSTEMPLOYMENT BENEFITS

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 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 Postemployment 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 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.

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 additional increase in

**PORTSMOUTH PUBLIC LIBRARY
SCIOTO COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 7 – POSTEMPLOYMENT BENEFITS (Continued)

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 8 - DEBT OBLIGATIONS

Debt outstanding at December 31, 2004 was as follows:

	Principal	Interest Rate
General Obligation Notes	\$209,596	6.81%

The Library had outstanding debt with Fifth-Third Bank for the renovation and improvement of the main library branch. The original note dated August 18, 1993 was for \$2,000,000 with monthly principal payments in the amount of \$16,423. The note is collateralized by the first lien on all real estate owned by the Library subject to a maximum of 75% advance against the appraised value. The note required the Library to establish a fund account with Fifth-Third Bank with a constant minimum balance of 25% of the outstanding loan balance. These funds are maintained in the regular cash account and are reflected in the General Fund as a debt service account.

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

Year ending December 31:	General Obligation Notes
2005	\$205,197
2006	12,593
Total	\$217,790



**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***

Portsmouth Public Library
Scioto County
1220 Gallia Street
Portsmouth, Ohio 45662

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Portsmouth Public Library, Scioto, 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 11, 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 opinions 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*.

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".

Betty Montgomery
Auditor of State

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**PORTSMOUTH PUBLIC LIBRARY
SCIOTO 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 16, 2005**