



**Auditor of State
Betty Montgomery**

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Public Library of Mount Vernon and Knox County
Knox County
201 North Mulberry Street
Mount Vernon, Ohio 43040

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Library of Mount Vernon and Knox County, Knox County, Ohio, as of December 31, 2004, and the respective changes in cash 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 2 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

October 20, 2006

**PUBLIC LIBRARY OF MOUNT VERNON & KNOX COUNTY
KNOX COUNTY**

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

The management's discussion and analysis of the Public Library of Mount Vernon and Knox County's (the Library) financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2004, within the limitations of the Library's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

Net assets of governmental activities increased \$103,725 or 10.2 percent, a significant change from the prior year. The most significant increase was in the General Fund which increased by 41 percent from the prior year. This increase was the result of a decrease in expenses for library materials and information of 26 percent from the prior year.

The Library's General Fund revenues come primarily from the State of Ohio's Library and Local Government Support Fund (LLGSF), and a three-tenths mill local property tax levy. In 2004, these contributed, respectively, \$1,598,760 and \$168,234, or 94.8 percent, of the General Fund revenues. Total revenue in the General Fund of \$1,862,730 was consistent with total revenues in the previous year, increasing only by less than 1 percent.

The Library retired \$175,000 of its outstanding bonded indebtedness, leaving \$1,115,000 in principal on the outstanding bonds, which will be completely retired as of December 1, 2011.

Total General Fund expenditures of \$1,805,441 were lower than the previous year, decreasing by 4.2 percent from 2003. This was due to decreased expenditures for library materials and information.

Using This Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements that will allow the reader to understand the financial operations of the Public Library of Mount Vernon and Knox County as a single operating entity. It is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34 (GASB 34), as applicable to the Library's cash basis of accounting.

Report Components

The Statement of Net Assets and the Statement of Activities provide information about the cash activities of the Library as a whole presenting an aggregate view of the Library's finances.

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.

**PUBLIC LIBRARY OF MOUNT VERNON & KNOX COUNTY
KNOX COUNTY**

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

Basis of Accounting

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

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

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

These statements report the Library's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Library's financial health. Over time, increases or decreases in the Library's cash position is one indicator of whether the Library's financial health is improving or deteriorating. When evaluating the Library's financial condition, you should also consider other non-financial factors as well, such as the Library's property tax base, 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 such as property taxes.

The Statement of Net Assets and the Statement of Activities discuss the Library's governmental activities:

Governmental activities. The Library's basic services are reported here, including general library services. State grants and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Library's Most Significant Funds

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

**PUBLIC LIBRARY OF MOUNT VERNON & KNOX COUNTY
KNOX COUNTY**

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

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

The Library as a Whole

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

(Table 1)
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Cash and Cash Equiva	1,119,096	1,015,371
Total Assets	1,119,096	1,015,371
Net Assets		
Restricted for:		
Debt Service	726,561	663,184
Unrestricted	392,535	352,187
Total Net Assets	\$1,119,096	\$1,015,371

- As mentioned previously, net assets of governmental activities increased \$103,725, or 10.2 percent during 2004. The most significant increase was in the General Fund, which increased by 41 percent due to a decrease in library materials and information expenditures of 26 percent from the prior year.

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.

**PUBLIC LIBRARY OF MOUNT VERNON & KNOX COUNTY
KNOX COUNTY**

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

(Table 2)
Changes in Net Assets

	Governmental Activities 2004
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$46,023
Operating Grants and Contributions	13,860
Total Program Receipts	59,883
General Receipts:	
Property and Other Local Taxes	440,245
Intergovernmental	1,651,045
Interest	19,963
Miscellaneous	10,618
Total General Receipts	2,121,871
Total Receipts	2,181,754
Disbursements:	
Salaries and Benefits	1,406,605
Purchased Services and Contracted Services	191,486
Supplies	35,112
Library Materials and Information	177,494
Other	5,637
Debt Service	235,478
Capital Outlay	26,217
Total Disbursements	2,078,029
Increase (Decrease) in Net Assets	103,725
Net Assets, January 1	1,015,371
Net Assets, December 31	\$1,119,096

Program receipts represent only 2.7 percent of total receipts and are primarily comprised of patron fines, fees and donations.

Of the Library's general receipts in 2004, \$1,598,760, or 75.3 percent, came from the Library and Local Government Support Fund (LLGSF). \$440,245, or 20.7 percent, came from local property taxes.

Disbursements include all of the regular costs associated with running the Library and providing library materials and services to the general public through the main library, three branches and the Extension Services Department's delivery services to the elderly, homebound, handicapped, preschools, Knox County Jail and Knox Community Hospital. The costs include salaries and benefits, health insurance, office supplies, maintenance and assorted other supplies, travel expenses, utilities, automation services, building and liability insurance, postage and freight costs, legal advertising, printing and publication fees, building and site repairs, maintenance contracts, computer hardware and software maintenance, consulting services, library materials (books, periodicals, audiovisual media, electronic data resources), furnishings and equipment, and organizational memberships.

**PUBLIC LIBRARY OF MOUNT VERNON & KNOX COUNTY
KNOX COUNTY**

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

Disbursements for Debt Service included the retirement of \$175,000 in principal on the outstanding library building improvement bonds, and the related interest and fiscal charges on the bonds of \$60,478.

Capital outlay from the Capital Projects Fund is used for improvements to infrastructure. The most common expenditures from this fund include new computer equipment, shelving units and other furnishings, and new parts and repairs to the heating, ventilating and air conditioning systems (HVAC).

Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the Library. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for salaries and benefits, purchased and contracted services, and library materials and information which account for 67.6, 9.2, and 8.5 percent of all governmental disbursements, respectively. The next two columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for services 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 unrestricted government grants-in-aid, LLGSF, or local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost for 2004 is presented in Table 3.

(Table 3)

Governmental Activities	Total Cost Of Services 2004	Net Cost of Services 2004
Salaries and Benefits	\$1,406,605	\$1,406,605
Purchased and Contracted Services	191,486	152,755
Supplies	35,112	27,820
Library Materials and Information	177,494	164,534
Other	5,637	5,637
Capital Outlay	26,217	25,317
Principal Retirement	175,000	175,000
Interest and Fiscal Charges	60,478	60,478
Total Expenses	\$2,078,029	\$2,018,146

The dependence upon unrestricted grants-in-aid, LLGSF, property tax receipts and other general receipts is apparent, as over 97.1 percent of governmental activities are supported through general receipts.

The Library's Funds

Total governmental funds had receipts of \$2,181,754 and disbursements of \$2,078,029. The greatest change in within governmental funds occurred within the General Fund, which increased by a total of \$57,289, or 41 percent. This change is reflective of decreases in total General Fund expenditures of \$75,173, primarily due to a decrease in library materials and information expenditures which decreased 26 percent.

**PUBLIC LIBRARY OF MOUNT VERNON & KNOX COUNTY
KNOX COUNTY**

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

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 actual receipts exceeded original budgeted receipts by \$5,426.

Final disbursements from the General Fund were budgeted at \$1,997,249 while actual disbursements were \$1,805,441.

Debt Administration

Debt

At December 31, 2004, the Library's outstanding debt was \$1,115,000 in general obligation bonds issued for improvements to buildings and structures. For further information regarding the Library's debt, refer to Note 11 to the basic financial statements.

Current Issues

The Public Library of Mount Vernon and Knox County strives continually to provide the highest quality and optimum quantity of library materials and services to the general public of the library district. In an era of rising prices and stagnant or shrinking funding, this can be a difficult and challenging task. There are certain costs which, effectively, cannot be controlled such as increased costs for insurance and utilities. Historically, the Library has controlled costs and responded to fiscal crises (generally brought about by legislative actions of the Ohio General Assembly) by reducing expenditures for library materials (books, periodicals, audiovisual media and electronic data resources) and reducing staff, usually by attrition. These measures have worked reasonably well, so far. In anticipation of further fiscal strictures, the Library Board of Trustees, the Director and the Clerk-Treasurer are continually reviewing (in consultation with other library personnel) options and ideas for further cost reduction measures, as well as possibilities for revenue enhancements.

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 Dee Durfee, Clerk-Treasurer, or John K. Chidester, Director, Public Library of Mount Vernon and Knox County, 201 N. Mulberry Street, Mount Vernon, OH 43050.

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,119,096</u>
<i>Total Assets</i>	<u><u>\$1,119,096</u></u>
Net Assets	
Restricted for:	
Debt Service	\$726,561
Unrestricted	<u>392,535</u>
<i>Total Net Assets</i>	<u><u>\$1,119,096</u></u>

See accompanying notes to the basic financial statements

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

	General	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$195,982	\$726,561	\$135,451	\$61,102	\$1,119,096
<i>Total Assets</i>	<u>\$195,982</u>	<u>\$726,561</u>	<u>\$135,451</u>	<u>\$61,102</u>	<u>\$1,119,096</u>
Fund Balances					
Unreserved:					
Undesignated, Reported in:					
General Fund	195,982				195,982
Debt Service Fund		726,561			726,561
Capital Projects Funds			135,451		135,451
Special Revenue Funds				61,102	61,102
<i>Total Fund Balances</i>	<u>\$195,982</u>	<u>\$726,561</u>	<u>\$135,451</u>	<u>\$61,102</u>	<u>\$1,119,096</u>

See accompanying notes to the basic financial statements

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

	General	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Receipts					
Property and Other Local Taxes	\$168,234	\$272,011	\$0	\$0	\$440,245
Intergovernmental	1,617,892	33,153	0	0	1,651,045
Patron Fines and Fees	46,023	0	0	0	46,023
Restricted Gifts and Contributions	0	0	0	53	53
Gifts and Contributions	0	0	0	12,907	12,907
Interest	19,963	0	0	0	19,963
Miscellaneous	10,618	0	900	0	11,518
<i>Total Receipts</i>	<u>1,862,730</u>	<u>305,164</u>	<u>900</u>	<u>12,960</u>	<u>2,181,754</u>
Disbursements					
Current:					
Salaries and Benefits	1,406,605	0	0	0	1,406,605
Purchased and Contracted Services	185,177	6,309	0	0	191,486
Supplies	35,112	0	0	0	35,112
Library Materials & Information	172,910	0	0	4,584	177,494
Other	5,637	0	0	0	5,637
Capital Outlay	0	0	26,217	0	26,217
Debt Service:					
Principal Retirement	0	175,000	0	0	175,000
Interest and Fiscal Charges	0	60,478	0	0	60,478
<i>Total Disbursements</i>	<u>1,805,441</u>	<u>241,787</u>	<u>26,217</u>	<u>4,584</u>	<u>2,078,029</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	57,289	63,377	(25,317)	8,376	103,725
<i>Fund Balances Beginning of Year</i>	<u>138,693</u>	<u>663,184</u>	<u>160,768</u>	<u>52,726</u>	<u>1,015,371</u>
<i>Fund Balances End of Year</i>	<u>\$195,982</u>	<u>\$726,561</u>	<u>\$135,451</u>	<u>\$61,102</u>	<u>\$1,119,096</u>

See accompanying notes to the basic financial statements

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN 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				
Property and Other Local Taxes	\$164,700	\$164,700	\$168,234	\$3,534
Intergovernmental	1,614,304	1,614,304	1,617,892	3,588
Patron Fines and Fees	52,800	52,800	46,023	(6,777)
Interest	19,000	19,000	19,963	963
Miscellaneous	6,500	6,500	10,618	4,118
<i>Total receipts</i>	<u>1,857,304</u>	<u>1,857,304</u>	<u>1,862,730</u>	<u>5,426</u>
Disbursements				
Current:				
Salaries and Benefits	1,481,841	1,481,841	1,406,605	75,236
Purchased and Contracted Services	215,861	217,609	185,177	32,432
Supplies	44,500	44,100	35,112	8,988
Library Materials and Information	246,700	247,599	172,910	74,689
Other Objects	5,900	6,100	5,637	463
<i>Total Disbursements</i>	<u>1,994,802</u>	<u>1,997,249</u>	<u>1,805,441</u>	<u>191,808</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(137,498)</u>	<u>(139,945)</u>	<u>57,289</u>	<u>197,234</u>
<i>Net Change in Fund Balance</i>	(137,498)	(139,945)	57,289	197,234
<i>Fund Balance Beginning of Year</i>	<u>138,693</u>	<u>138,693</u>	<u>138,693</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1,195</u>	<u>(\$1,252)</u>	<u>\$195,982</u>	<u>\$197,234</u>

See accompanying notes to the basic financial statements

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**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

Note 1 – Description of the Library and Reporting Entity

The Public Library of Mount Vernon and Knox County (the Library) began as a municipal library in 1888, and was then organized as a school district library in 1924. In 1985, the school district library board reorganized as a county district library, pursuant to sections 3375.19 to 3375.24, inclusive, of the Ohio Revised Code, and continues to operate as such under sections 3375.32 to 3375.41, inclusive, and other relevant sections of the Ohio Revised Code. When the county library district was created, all property of the former municipal library, with the exception of its endowment fund, and all property of the former school district public library, became vested in the new county district library. The Library has its own Board of Trustees of seven members, four of which are appointed by the Knox County Commissioners and three of which are appointed by the judge of the Knox County Common Pleas Court. Appointments are for seven-year terms and members serve without compensation. Under Ohio statutes, the Library is a body politic and corporate capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. Control and management of the Library is governed by sections 3375.32 to 3375.41 of the Ohio Revised Code with the administration of the day-to-day operations of the Library being the responsibility of the Director and financial accountability being solely that of the Clerk-Treasurer.

Under the provisions of Statement No. 14 of the Governmental Accounting Standards Board, "The Financial Reporting Entity," the Library is considered to be a related organization of the County of Knox, Ohio.

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

The Library is fiscally independent of the Knox County government. The determination to request approval of a tax levy, the role and purpose(s) of the levy, are discretionary decisions made solely by the Board of Library Trustees. Once those decisions are made, the Board of County Commissioners must put the levy on the ballot. There is no potential for the Library to provide a financial benefit to or impose a financial burden on the Board of County Commissioners.

The Friends of the Public Library of Mount Vernon and Knox County (Friends of the Library) is a not-for-profit organization with a self-appointing board. The Library is not financially accountable for the organization, nor does the Library approve the budget or the issuance of debt of the organization. Although the economic resources of the Friends of the Library almost entirely benefit the Library, the Library is not entitled nor does it have access to the economic resources of the Friends of the Library. While the resources received by the Library from the Friends of the Library serve to enhance programs, facilities and the collection, these resources are not significant proportionally to the Library's annual budget.

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

Note 1 – Description of the Library and Reporting Entity (continued)

As discussed in further in Note 12, an endowment fund of the former municipal library board is held in trust and administered by a board of trustees (the City Board) appointed by the mayor of the City of Mount Vernon, Ohio, with ratification by vote of the Mount Vernon City Council. The Library does not exercise any control whatsoever over the appointment of the City Board's trustees. The Library is not entitled to the corpus of the City Board's assets and does not exercise any control over them. The City Board decides on its own, without any input or control from the Library, how much of the income from those assets will be disbursed to the Public Library of Mount Vernon and Knox County in any given year.

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. These statements include the financial activities of the Library. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

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

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

The Library classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants-in-aid), and other nonexchange transactions as governmental funds. The Library's major governmental funds are the General Fund, Debt Service Fund and Capital Projects Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Library for any purpose provided it is expended or transferred according to the general laws of Ohio. The Debt Service Fund is used to accumulate local property taxes to be used to pay the principal and interest on outstanding library improvement bonds and notes. The Capital Projects fund is used to account for receipts that are set aside by the Board of Trustees for building construction, renovation, maintenance and repair, furnishings, equipment and technology improvements for the Library. The other governmental funds of the Library account for contributions and other endowments whose use is restricted to a particular purpose.

C. Basis of Accounting

The Library's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Library's financial records and reported in the financial statements when cash is received rather than when earned, and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

D. Budgetary Process

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

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (continued)

Effective January 1, 2001, the Ohio Administrative Code amended library budgetary requirements. Libraries are not required to estimate resources or encumber appropriations. For control purposes, however, the Library estimates cash receipts for the year. These estimated receipts, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. These estimated receipts may be revised during the year if projected increases or decreases in receipts are identified by the Clerk Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriations were enacted by the Trustees.

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

E. Cash and Cash Equivalents

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

During 2004, the Library invested in nonnegotiable certificates of deposit and maintained a money market savings account.

Interest earnings credited to the General Fund during 2004 was \$19,963.

F. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused vacation or unpaid compensatory time, but not for unused sick leave, personal leave or emergency leave. The accumulated potential cost of unpaid vacation, sick leave, compensatory time, personal leave and emergency leave is not reflected as a liability under the Library's cash basis of accounting.

G. Employer Contributions to Cost-Sharing Pension Plans

The Library recognizes the disbursement for its employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. Long-Term Obligations

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

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (continued)

I. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments. Net assets restricted for other purposes include monies in the Debt Service Fund which are restricted for retirement of principle and interest of outstanding bonds and notes.

The Library's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

Note 3 – Change in Accounting Principles

In 2003, the Library reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. In 2004 the Library has implemented the cash basis of accounting described in note 2. The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

Note 4 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

Note 5 - Deposits and Investments

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

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

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

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

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

Note 5 - Deposits and Investments (continued)

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

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

Protection of the Library's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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 Library or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

Note 5 - Deposits and Investments (continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At year end, the carrying amount of the Library's deposits was \$1,119,096, and the bank balance was \$1,123,616. Of the bank balance \$100,000 was covered by federal depository insurance and \$1,023,616 was uninsured. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Library. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Library to a successful claim by the FDIC.

Note 6 - Grants-in-Aid Receipts

The primary source of revenue for Ohio public libraries is the State Library and Local Government Support Fund (LLGSF). The LLGSF is allocated to each county based on the county's prior intangibles tax of LLGSF revenues, and its population. The County Budget Commission allocates these funds to the Library based on its needs such as for the construction of new library buildings, improvements, operation, maintenance, or other expenses. The Budget Commission cannot reduce its allocation of these funds to the Library based on any additional revenues the Library receives.

Note 7 - Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Library district. Real property tax receipts received in 2004 represent the collection of 2003 taxes. Real property taxes received in 2004 were levied after October 1, 2003, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2004 represent the collection of 2003 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003, were levied after October 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2004 (other than public utility property) represent the collection of 2003 taxes. Tangible personal property taxes received in 2004 were levied after October 1, 2003, on the true value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

Note 7 - Property Taxes (continued)

The full tax rate for all Library operations for the year ended December 31, 2004, was \$0.58 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	
Residential	\$514,897,750
Agriculture	124,114,060
Commercial/Industrial/Mineral	106,160,640
Public Utility Property:	
Real	116,420
Personal	35,315,980
Tangible Personal Property	102,989,934
Total Assessed Value	<u>\$883,594,794</u>

Note 8- Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2004, the Library contracted with the Cincinnati Insurance Company, through the local offices of the Dumbaugh Insurance Agency, for various types of insurance coverage as follows:

<u>Type of Insurance</u>	<u>Coverage</u>
Commercial Property	\$4,800,000
General Liability	\$4,000,000
Automotive	\$1,000,000
Directors & Officers Errors & Omissions	\$1,000,000
Electronic Data Processing	\$126,330

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

Note 9 - Defined Benefit 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 plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

Note 9 - Defined Benefit Pension Plan (continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, OH 43215-4642.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries to fund pension obligations. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The Library's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the Library's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$153,118, \$152,308, and \$148,091, respectively.

Note 10 - 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 or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". 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 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 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 actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

Note 10 - Postemployment Benefits (continued)

The number of active contributing participants in the traditional and combined plans was 369,885. Actual Library employer contributions for 2004 which were used to fund postemployment benefits were \$45,161. The actual contribution and the actuarially required contribution amounts are the same. 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.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

Note 11 – Debt

The Library's long-term debt activity for the year ended December 31, 2004, was as follows:

	Interest Rate	Balance December 31, 2003	Reduction	Balance December 31, 2004	Due Within One Year
<u>Governmental Activities</u>					
Library Improvement Bonds 2000 Issue \$1,865,000	4.9%- 5.15%	\$1,290,000	\$ 175,000	\$ 1,115,000	\$ 185,000
Total Governmental-type Activities		<u>\$1,290,000</u>	<u>\$ 175,000</u>	<u>\$1,115,000</u>	<u>\$ 185,000</u>

Series 1989 Library Improvement Bonds were defeased in 2000 through the issue of series 2000 bonds totaling \$1,865,000. The series 2000 bonds will be repaid in annual installments, including interest over the next seven years.

Debt principal outstanding on the series 1989 bonds at December 31, 2004 was \$1,115,000. Assets accumulated to retire this debt are held by the trustee and are not included in these financial statements. At December 31, 2004, the trustee held assets that approximate the principal outstanding on the series 1989 bonds.

The following is a summary of the Library's future annual debt service requirements:

Year	Library Improvement Bonds	
	Principal	Interest
2005	\$ 185,000	\$ 51,053
2006	190,000	41,895
2007	200,000	32,395
2008	215,000	22,295
2009	220,000	11,330
2010	69,486	165,514
2011	35,514	99,487
Totals	<u>\$1,115,000</u>	<u>\$423,969</u>

**PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY
KNOX COUNTY**

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

Note 11 – Debt (continued)

The Ohio Revised Code provides that net general obligation debt of the Library, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5 percent of the tax valuation of the Library. The Revised Code further provides that total voted and unvoted net debt of the Library less the same exempt debt shall never exceed amount equal to 10.5 percent of its tax valuation. The effects of the debt limitations at December 31, 2004, were an overall debt margin of \$92,777,452 and an unvoted debt margin of \$48,597,713.

Note 12 – City Library Board

As previously discussed in Note 1, the Board of Trustees of the Public Library of the City of Mount Vernon (the “City Board”) agreed, by contract in 1985, to transfer ownership of buildings, books, equipment and facilities to the Board of Trustees of the Public Library of Mount Vernon and Knox County. In return, the Board of Trustees of the Public Library of Mount Vernon and Knox County agreed to continue to operate the public library for residents of Knox County in accordance with Sections 3375.19 through 3375.27, inclusive, of the Ohio Revised Code. The contract between the two parties shall renew automatically every five years, unless a written objection is made by either party.

The City Board continues to operate in a trustee capacity for endowments received for the Library over the years and is governed by a Board appointed by the Mayor of the City of Mount Vernon. As a part of the contract noted above, the income from the endowment investments are periodically paid to the Public Library of Mount Vernon and Knox County to aid in maintaining the Library as it is known today. Investment balances held and managed by the City Board are not included in the financial statements of the Public Library of Mount Vernon and Knox County.

Investment balances held and managed by the City Board at December 31, 2004 follows:

<u>Investments</u>	<u>Balance (Cost)</u>
Washington Mutual Investors Shares	\$ 40,000
Federal Home Loan Bank	67,763
Federal Home Loan Mortgage Corporation	79,903
Federal National Mortgage Association	39,541
Demand Deposits	58,432
<u>Total</u>	<u>\$285,639</u>

The City Board distributed \$7,713 to the Library in 2004.

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Auditor of State Betty Montgomery

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

Public Library of Mount Vernon and Knox County
Knox County
201 North Mulberry Street
Mount Vernon, Ohio 43040

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 Public Library of Mount Vernon and Knox County, Knox County, Ohio, (the Library) as of and for the year ended December 31, 2004, which collectively comprise the Library's basic financial statements and have issued our report thereon dated October 20, 2006 wherein we noted the Library implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - Management's Discussion and Analysis – for State and Local Governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

We intend this report solely for the information and use of 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

October 20, 2006



**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

PUBLIC LIBRARY OF MOUNT VERNON AND KNOX COUNTY

KNOX 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
DECEMBER 7, 2006**