



**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2004



**Auditor of State
Betty Montgomery**

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005.....	5
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Fiduciary Fund Type – For the Year Ended December 31, 2005	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2004	7
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Fiduciary Fund Type – For the Year Ended December 31, 2004	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17
Schedule of Prior Audit Findings	19

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

Grafton-Midview Public Library
Lorain County
983 Main Street
Grafton, Ohio 44044

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

September 27, 2006

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Grafton-Midview Public Library
Lorain County
983 Main Street
Grafton, Ohio 44044

To the Board of Trustees:

We have audited the accompanying financial statements of the Grafton-Midview Public Library, Lorain County, Ohio, (the Library) as of and for the years ended December 31, 2005 and December 31, 2004. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion 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 opinion.

As described more fully in Note 1, the Library has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Library to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Library does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Library has elected not to reformat its statements. Since this Library does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Library as of December 31, 2005 and December 31, 2004, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Grafton-Midview Public Library, Lorain County, as of December 31, 2005 and December 31, 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Library to include Management's Discussion and Analysis for the years ended December 31, 2005 and December 31, 2004. The Library has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 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.



Betty Montgomery
Auditor of State

September 27, 2006

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Other Government Grants-In-Aid	\$560,742	\$0	\$0	\$560,742
Patron Fines and Fees	20,277	0	0	20,277
Earnings on Investments	6,554	0	6,663	13,217
Contributions, Gifts and Donations	8,664	0	0	8,664
Miscellaneous Receipts	2,188	0	0	2,188
	598,425	0	6,663	605,088
Cash Disbursements:				
Current:				
Salaries and Benefits	332,048	0	0	332,048
Purchased and Contracted Services	75,468	0	0	75,468
Library Materials and Information	80,292	2,008	0	82,300
Supplies	8,706	0	0	8,706
Other	2,272	0	0	2,272
Capital Outlay	8,134	0	17,460	25,594
	506,920	2,008	17,460	526,388
Total Cash Receipts Over Cash Disbursements	91,505	(2,008)	(10,797)	78,700
Other Financing Receipts/(Disbursements):				
Transfers-In	0	0	100,000	100,000
Transfers-Out	(100,000)	0	0	(100,000)
	(100,000)	0	100,000	0
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	(8,495)	(2,008)	89,203	78,700
Fund Cash Balances, January 1	163,196	11,501	221,028	395,725
Fund Cash Balances, December 31	\$154,701	\$9,493	\$310,231	\$474,425

The notes to the financial statements are an integral part of this statement

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCE
FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Fiduciary Fund Type
	Nonexpendable Trust
Operating Cash Receipts:	
Earnings on Investments	\$0
Contributions, Gifts and Donations	0
	0
Total Operating Cash Receipts	0
Operating Cash Disbursements:	
Current:	
Library Materials and Information	0
Other Objects	0
Capital Outlay	0
	0
Total Operating Cash Disbursements	0
Operating Income	0
Excess of Receipts Over Disbursements Before Interfund Transfers and Advances	0
Transfers-In	0
Transfers-Out	0
	0
Net Receipts Over Disbursements	0
Fund Cash Balance, January 1	200,000
Fund Cash Balance, December 31	\$200,000

The notes to the financial statements are an integral part of this statement.

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Other Government Grants-In-Aid	\$556,367	\$0	\$0	\$556,367
Patron Fines and Fees	20,410	0	0	20,410
Earnings on Investments	3,583	0	1,376	4,959
Contributions, Gifts and Donations	5,242	0	0	5,242
Miscellaneous Receipts	63	0	0	63
	<u>585,665</u>	<u>0</u>	<u>1,376</u>	<u>587,041</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Salaries and Benefits	336,611	0	0	336,611
Purchased and Contracted Services	84,280	0	0	84,280
Library Materials and Information	68,588	2,717	0	71,305
Supplies	7,285	0	0	7,285
Other	2,544	0	0	2,544
Capital Outlay	14,261	0	38,686	52,947
	<u>513,569</u>	<u>2,717</u>	<u>38,686</u>	<u>554,972</u>
Total Cash Disbursements				
Total Cash Receipts Over/(Under) Cash Disbursements	<u>72,096</u>	<u>(2,717)</u>	<u>(37,310)</u>	<u>32,069</u>
Other Financing Receipts/(Disbursements):				
Transfers-In	0	0	150,000	150,000
Transfers-Out	(150,000)	0	0	(150,000)
	<u>(150,000)</u>	<u>0</u>	<u>150,000</u>	<u>0</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	(77,904)	(2,717)	112,690	32,069
Fund Cash Balances, January 1	<u>241,100</u>	<u>14,218</u>	<u>108,338</u>	<u>363,656</u>
Fund Cash Balances, December 31	<u><u>\$163,196</u></u>	<u><u>\$11,501</u></u>	<u><u>\$221,028</u></u>	<u><u>\$395,725</u></u>

The notes to the financial statements are an integral part of this statement.

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCE
FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Fiduciary Fund Type
	Nonexpendable Trust
Operating Cash Receipts:	
Earnings on Investments	\$0
Contributions, Gifts and Donations	0
	0
Total Operating Cash Receipts	0
Operating Cash Disbursements:	
Current:	
Library Materials and Information	0
Other Objects	0
Capital Outlay	0
	0
Total Operating Cash Disbursements	0
Operating Income	0
Excess of Receipts Over Disbursements Before Interfund Transfers and Advances	0
Transfers-In	0
Transfers-Out	0
	0
Net Receipts Over Disbursements	0
Fund Cash Balance, January 1	200,000
Fund Cash Balance, December 31	\$200,000

The notes to the financial statements are an integral part of this statement.

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Grafton-Midview Public Library, Lorain County, (the Library) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of Ohio. The Library is directed by a seven-member Board of Trustees appointed by the Midview Local School District Board of Education. 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.

B. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This accounting basis is similar to the cash receipts and disbursements basis. The Library recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

Investments are included in fund cash balances. 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 investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

D. Fund Accounting

The Library uses fund accounting to segregate cash and investments that are restricted as to use. The Library classifies its funds into the following types:

1. General Fund

The General Fund accounts for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

This Fund is used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Library had the following significant Special Revenue Fund:

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Fund (Continued)

Hendrix Special Revenue Fund – used to account for interest income earned by the Hendrix Trust Fund, which restricts the expenditure of interest to the purchase of books, movies, and collectable art.

3. Capital Projects Fund

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Library had the following significant Capital Projects Fund:

Building and Repair Fund – used for the purpose of repairing, improving, furnishing, and equipping the existing library.

4. Fiduciary Fund (Trust Fund)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Library to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. The Library had the following significant nonexpendable trust fund:

Hendrix Trust Fund – used to account for an endowment received from the estate of the donor. The donor specified that the principal could not be spent, but the proceeds (earnings) could be spent for the purchase of books, movies, and collectable art.

E. Budgetary Process

The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end. Budgetary expenditures may not exceed appropriations at the fund level.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Library records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Total Columns

Total columns on the financial statements are captioned “(Memorandum Only)” to indicate that they are presented to facilitate financial analysis. Such data is not comparable to a consolidation.

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:

	2005	2004
Demand deposits	\$41,002	\$40,518
Petty cash and change cash	100	100
Total deposits	41,102	40,618
Hendrix Fund (Treasury Notes and Equity Securities)	200,000	200,000
STAR Ohio	433,323	355,107
Total investments	633,323	555,107
Total deposits and investments	\$674,425	\$595,725

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Library.

Investments: U.S. Treasury Notes are held in book-entry form by the Federal Reserve Bank, in the name of the Library's financial institution, Lorain National Bank (the Bank). The equity securities are also held in book-entry form by the Bank. The bank maintains records identifying the Library as owner of these securities. Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

Roland H. and Veta Genevieve Hendrix Memorial Book Fund

Upon the death of Veta Genevieve Hendrix, on September 7, 1995, Premier Bank and Trust, (Trustee), distributed the trust corpus of \$200,000, as directed in the April 6, 1994 trust agreement of Veta Genevieve Hendrix, to the Board of Trustees of the Grafton-Midview Public Library. The gift was to be retained and only the income was to be used, to purchase books, movies, art objects and other items to be added to the collection of the Library. A judgment was issued by the Lorain County Court of Common Pleas, Probate Division, declaring that the Hendrix Fund was not subject to the Uniform Depository Act, Ohio Revised Code Chapter 135. The Uniform Management of Institutional Funds Act, Ohio Revised Code Chapter 1715, allows the Fund to be invested in private, corporate and public securities. The Board of Trustees authorized the Lorain National Bank to establish a custodial account and direct the investment of the Hendrix Fund. The following schedules account for the value of the Fund at December 31, 2005 and December 31, 2004:

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Initial Deposit on 10/31/2000	Cost Basis Unit Price at 12/31/04	Market Value Unit Price at 12/31/04
\$200,000	\$171,712	\$160,704

Initial Deposit on 10/31/2000	Cost Basis Unit Price at 12/31/05	Market Value Unit Price at 12/31/05
\$200,000	\$168,909	\$166,791

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and December 31, 2004 follows:

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$706,112	\$606,920	\$99,192
Special Revenue	12,283	2,008	10,275
Capital Projects	104,160	17,460	86,700
Nonexpendable Trust	0	0	0
Total	<u>\$822,555</u>	<u>\$626,388</u>	<u>\$196,167</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$777,348	\$663,569	\$113,779
Special Revenue	9,000	2,717	6,283
Capital Projects	50,000	38,686	11,314
Nonexpendable Trust	0	0	0
Total	<u>\$836,348</u>	<u>\$704,972</u>	<u>\$131,376</u>

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. These revenues are reflected in the financial statements as Other Government Grants-In-Aid.

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

5. RETIREMENT SYSTEM

The Ohio Public Employees Retirement System (OPERS) is a state operated, cost-sharing, multiple employer public employee retirement system. The Ohio Revised Code prescribes retirement benefits for vested employees who are eligible to retire based upon years of service. OPERS also provides survivor and disability benefits to vested employees as the Ohio Revised Code prescribes.

The Ohio Revised Code also prescribes contribution rates. The Library's OPERS members contributed 8.5 percent of their gross salaries. The Library contributed an amount equal to 13.55 percent of participants' gross salaries from January 1, 2004 through December 31, 2005. The Library has paid all contributions required through December 31, 2005.

6. RISK MANAGEMENT

Commercial Insurance

The Grafton-Midview 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. The Library's liability is limited to the premiums it pays.

This page intentionally left blank.



**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***

Grafton-Midview Public Library
Lorain County
983 Main Street
Grafton, Ohio 44044

To the Board of Trustees:

We have audited the financial statements of the Grafton-Midview Public Library, Lorain County, Ohio, (the Library) as of and for the years ended December 31, 2005 and December 31, 2004, and have issued our report thereon dated September 27, 2006, wherein we noted the Library followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2005-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material condition. In a separate letter to the Library's management dated September 27, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

Compliance and Other Matters

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

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.



Betty Montgomery
Auditor of State

September 27, 2006

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2005-001

Expenditures from the Roland H. and Veta Genevieve Hendrix Memorial Book Fund – Investment Policy

Upon the death of Veta Genevieve Hendrix, on September 7, 1995, Premier Bank and Trust, (Trustee), distributed the trust corpus of \$200,000, as directed in the April 6, 1994 trust agreement of Veta Genevieve Hendrix, to the Board of Trustees of the Grafton-Midview Public Library. In September 1995, the Board requested an opinion from the office of Jim Petro, Auditor of State, as to how the \$200,000 could be invested. On November 16, 1995, an informal opinion was issued by the office of the Auditor of State. The opinion stated that the funds must be invested in accordance with the Ohio Rev. Code Section 135. On February 3, 1997, the Board filed a declaratory judgment action against Jim Petro, in his official capacity as Auditor of State, Betty Montgomery, in her official capacity as Attorney General, and Premier Bank and Trust, as trustee of the Hendrix Trust. The Board requested that the trial court declare that the Board could invest in corporate securities and was not prohibited from doing so by the Ohio Rev. Code Section 135, as Mr. Petro opined. After a lengthy legal process, a judgment was issued by the Lorain County Court of Common Pleas, Probate Division, declaring that the Hendrix Fund was not subject to the Uniform Depository Act, Ohio Revised Code Chapter 135. The Uniform Management of Institutional Funds Act, Ohio Revised Code Chapter 1715, allows the Fund to be invested in private, corporate, and public securities. The Board of Trustees then authorized the Lorain National Bank to establish a custodial account and direct the investment of the Hendrix Fund.

The Roland H. and Veta Genevieve Hendrix Memorial Book Fund Investment Policy Statement states that the purpose of the fund is to invest and retain the principal as a source of future income. The income from the fund is to be used annually for the purchase of books, movies, art objects, and other items to be added to the Library's collections. The Library did not purchase items pursuant to the intentions of the trust agreement. In a previous audit, a recommendation was presented to the Library to establish policies regarding the appropriation of any net appreciation of the original bequest funds and its responsibility to preserve any appreciation of funds that may occur subsequent to a realized loss of principal caused by investment transactions. Contrary to the recommendation, the Library continued with its normal investment procedures throughout the audit period. The following tables illustrate the decline in value of the Hendrix Trust since its inception:

Initial Deposit on 12/31/2000	Cost Basis Unit Price at 12/31/2000	Market Value Unit Price at 12/31/2000
\$200,000	\$199,810	\$187,353

Initial Deposit on 12/31/2000	Cost Basis Unit Price at 12/31/2001	Market Value Unit Price at 12/31/2001
\$200,000	\$190,493	\$160,169

Initial Deposit on 12/31/2000	Cost Basis Unit Price at 12/31/2002	Market Value Unit Price at 12/31/2002
\$200,000	\$184,092	\$138,027

Initial Deposit on 12/31/2000	Cost Basis Unit Price at 12/31/2003	Market Value Unit Price at 12/31/2003
\$200,000	\$174,331	\$158,644

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

**FINDING NUMBER 2005-001
(Continued)**

Expenditures from the Roland H. and Veta Genevieve Hendrix Memorial Book Fund – Investment Policy (Continued)

Initial Deposit on 12/31/2000	Cost Basis Unit Price at 12/31/2004	Market Value Unit Price at 12/31/2004
\$200,000	\$171,712	\$160,704

Initial Deposit on 12/31/2000	Cost Basis Unit Price at 12/31/2005	Market Value Unit Price at 12/31/2005
\$200,000	\$168,909	\$166,791

The Library had investments which produced dividend and interest income. For example on January 25, 2005, the Hendrix Memorial Book Fund Statement of Account reflected \$66 in dividend income from an investment in General Electric Company. Similarly, on August 15, 2005, the Hendrix Memorial Book Fund Statement of Account reflected \$703 in interest income on U.S. Treasury Notes. However, the Library has also paid quarterly and monthly fees and agency tax preparation fees of \$3,052 between January 1, 2004 and December 31, 2005. The net effect of the gains and losses is reflected in the aforementioned tables.

The Board of Trustees should attempt to meet the intensions of the Hendrix Trust, which are to invest and retain the principal as a source of future income. The income from the fund is to be used annually for the purchase of books, movies, art objects, and other items to be added to the Library's collections. A policy should be created and formally documented and approved by the Board of Trustees stating the purpose, goals, objectives, and expected costs of managing the Hendrix Trust to annually purchase books, movies, art objects and other items to be added to the Library's collections and no longer violate the trust agreement.

Client's Response:

The Library has made expenditures from the Hendrix interest in the past. There were no expenditures from the fund during this audit as a result of there being no net income. The Board will continue to comply with the directives from the Trust in the future as it has in the past.

**GRAFTON-MIDVIEW PUBLIC LIBRARY
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	The Board of Trustees should attempt to meet the intensions of the Hendrix Trust, which are to invest and retain the principal as a source of future income.	No	Not Corrected



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

GRAFTON-MIDVIEW PUBLIC LIBRARY

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 19, 2006**