



Mary Taylor, CPA
Auditor of State

**MUSKINGUM COUNTY LIBRARY SYSTEM
MUSKINGUM COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Muskingum County Library System, Muskingum County, Ohio (the Library), as of and for the years ended December 31, 2008 and 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Muskingum County Library System, Muskingum County, Ohio, as of December 31, 2008 and 2007, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2009, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

July 13, 2009

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2008 and 2007
Unaudited

The discussion and analysis of the Muskingum County Library System's (the Library) financial performance provides an overview of the Library's financial activities for the years ended December 31, 2008 and 2007, within the limitations of the Library's modified cash basis of accounting. The intent of this discussion and analysis is to look at the Library's financial performance as a whole.

Financial Highlights

Key financial highlights for 2008 are as follows:

- General receipts accounted for \$3,308,885 or 95.7 percent of all receipts. Program receipts in the form of charges for services, operating grants and contributions accounted for \$147,033 or over 4.3 percent of total receipts.
- Net assets decreased by \$473,977 or 10.2 percent. The funds most affected by the decrease in assets were the General Fund and the Building Fund, however, cost increases affected most funds.
- The Library received an LSTA Grant from the State Library of Ohio in the amount of \$16,275 to fund a mobile computer lab to be used at branches and in the community for technology training and access.
- The source of the Public Library Fund (PLF) was changed from 5.7 percent of the State of Ohio's Personal Income Tax to 2.2 percent of the State of Ohio's General Revenue Fund in January of 2008, allowing the PLF to ebb and flow with the State of Ohio's Tax receipts.
- The Library completed a Renovation Project of the Carnegie Wing of the John McIntire Library in celebration of the Wing's 100th anniversary.

Key financial highlights for 2007 are as follows:

- General receipts accounted for \$3,400,977 or about 92.6 percent of all receipts. Program receipts in the form of charges for services, operating grants and contributions accounted for \$200,925 or 5.5 percent of total receipts.
- Net assets decreased \$186,527 or 3.9 percent in 2007. The funds most affected by the decrease in assets were the General and Building Funds, however, cost increases also affected the Automation Fund.

Using this Annual Financial Report

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

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

Reporting the Library as a Whole

The Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified Cash Basis reflect how the Library did financially during 2008 and 2007. These two statements report the

Muskingum County Library System
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For the Years Ended December 31, 2008 and 2007
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Library's net assets and changes in those assets. The change in net assets is important because it tells the reader whether the financial position of the Library as a whole has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. These factors must be considered when assessing the overall financial health of the Library.

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

Reporting the Library's Governmental Financial Statements

Governmental Financial Statements

The governmental financial statements provide detailed information about the Library's major funds, the General Fund, Building & Repair Fund and Automation Fund. While the Library uses many funds to account for its financial transactions, these are the most significant.

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

The Library as a Whole

Table 1 provides a summary of the Library's net assets for 2008 compared to 2007 and 2007 as compared to 2006.

Table 1
Net Assets – Modified Cash Basis

| | Governmental Activities | | |
|--|--------------------------------|---------------------|---------------------|
| | 2008 | 2007 | 2006 |
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 2,415,152 | \$ 2,633,008 | \$ 4,825,719 |
| Investments | 1,750,063 | 2,006,184 | 0 |
| Total Assets | \$ 4,165,215 | \$ 4,639,192 | \$ 4,825,719 |
| Net Assets | | | |
| Restricted | \$ 3,741,349 | \$ 4,105,722 | \$ 4,245,413 |
| Unrestricted | 423,866 | 533,470 | 580,306 |
| Total Net Assets | \$ 4,165,215 | \$ 4,639,192 | \$ 4,825,719 |

Net assets of governmental activities decreased by \$473,977 or 10.2 percent during 2008. This decrease can be attributed to the continued deterioration of the Public Library Fund and the overall increased pressure on the Library's budget to do more with less.

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Unaudited

In 2007, total assets decreased \$186,527 or 3.9 percent. This decrease can be attributed to several factors. State funding remained frozen and the Board adopted a conservative view on expenses. In addition, retirement and health care costs continued to increase.

Table 2 shows the changes in net assets for the years ended December 31, 2008, December 31, 2007 and December 31, 2006.

Table 2
Changes in Net Assets – Modified Cash Basis

| | Governmental Activities | | |
|-------------------------------------|--------------------------------|----------------------------|----------------------------|
| | 2008 | 2007 | 2006 |
| Receipts: | | | |
| Program Cash Receipts | | | |
| Charges for Services | \$ 110,491 | \$ 112,375 | \$ 117,762 |
| Operating Grants & Contributions | 20,267 | 88,550 | 16,341 |
| Capital Grants & Contributions | 16,275 | 0 | 0 |
| Total Program Cash Receipts | <u>147,033</u> | <u>200,925</u> | <u>134,103</u> |
| General Receipts | | | |
| Government Grants-in-Aid, LLGSF | 3,097,181 | 3,147,987 | 3,147,987 |
| Interest | 159,907 | 233,259 | 231,401 |
| Rental Income | 8,357 | 8,125 | 7,800 |
| Miscellaneous Receipts | 43,440 | 11,606 | 10,506 |
| Total General Receipts | <u>3,308,885</u> | <u>3,400,977</u> | <u>3,397,694</u> |
| Transfers | 0 | 70,787 | 0 |
| Total Receipts and Transfers | <u><u>\$ 3,455,918</u></u> | <u><u>\$ 3,672,689</u></u> | <u><u>\$ 3,531,797</u></u> |
| Disbursements: | | | |
| Public Services | | | |
| General Public Services | \$ 2,331,777 | \$ 2,345,215 | \$ 2,101,312 |
| Purchased & Contracted Services | 462,359 | 493,383 | 471,965 |
| Library Materials & Information | 631,365 | 654,991 | 616,505 |
| Capital Outlay | 504,394 | 365,627 | 325,015 |
| Total Disbursements | <u><u>\$ 3,929,895</u></u> | <u><u>\$ 3,859,216</u></u> | <u><u>\$ 3,514,797</u></u> |
| Change in Net Assets | <u><u>\$ (473,977)</u></u> | <u><u>\$ (186,527)</u></u> | <u><u>\$ 17,000</u></u> |

During 2008, program receipts show a decrease relevant to 2007. This can be attributed to the money received in 2007 through a bequest. Charges for services can be seen to be decreasing in 2008 and 2007 when compared to 2006 mainly because of the use of Unique Management Services for collection of overdue fines and fees and email notifications of materials due dates.

In 2008, general receipts represented 95.7 percent of the Library's overall receipts, and in 2007, general receipts represented 92.6 percent of the Library's total receipts. General receipts in both 2008 and 2007, were made up almost entirely by the Public Library Fund (PLF) monies. Since these monies are provided by the State, it can be seen how any decreases in this funding source have a substantial impact on the services the Library can provide.

Total disbursements increased by 1.8 percent in 2008 from 2007. This can be attributed to several factors. One of which is completion of renovations to the Carnegie Wing of the John McIntire Library

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Unaudited

including insulation of walls and cosmetic changes. Another is the roof replacement and interior changes to the Duncan Falls Philo Branch and drainage repairs made to the Carnegie Wing to preserve the exterior of the building.

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

Table 3
Governmental Activities – Modified Cash Basis

| | Total Cost of Services 2008 | Net Cost of Services 2008 |
|---------------------------------|--|--|
| Public Services | | |
| General Public Services | \$ 2,331,777 | \$ 2,201,019 |
| Purchased & Contracted Services | 462,359 | 462,359 |
| Library Materials & Information | 631,365 | 631,365 |
| Capital Outlay | 504,394 | 488,119 |
| Total Disbursements | <u>\$ 3,929,895</u> | <u>\$ 3,782,862</u> |
| | Total Cost of Services 2007 | Net Cost of Services 2007 |
| Public Services | | |
| General Public Services | \$ 2,345,215 | \$ 2,144,290 |
| Purchased & Contracted Services | 493,383 | 493,383 |
| Library Materials & Information | 654,991 | 654,991 |
| Capital Outlay | 365,627 | 365,627 |
| Total Disbursements | <u>\$ 3,859,216</u> | <u>\$ 3,658,291</u> |
| | Total Cost of Services 2006 | Net Cost of Services 2006 |
| Public Services | | |
| General Public Services | \$ 2,101,312 | \$ 1,967,209 |
| Purchased & Contracted Services | 471,965 | 471,965 |
| Library Materials & Information | 616,505 | 616,505 |
| Capital Outlay | 325,015 | 325,015 |
| Total Disbursements | <u>\$ 3,514,797</u> | <u>\$ 3,380,694</u> |

Governmental Fund Financial Statements

The Library's governmental fund financial statements are accounted for using the modified cash basis of accounting. The Library's major governmental funds are the General Fund, the Building and Repair Fund and the Automation Fund. During 2008, fund balance decreases were reflected in the amounts of \$109,604 in the General Fund, of \$348,457 in the Building and Repair Fund, and of \$16,117 in the Automation Fund. The larger changes in fund balance in the General Fund can be attributed to an increased use of carryover money for operations, and the decrease in the Building and Repair Fund can

Muskingum County Library System
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be attributed to the renovations made at the John McIntire Library and Duncan Falls Philo Branch. The Automation Fund decrease reflects an increase in disbursements from that fund due to the declining PLF fund and the Board's increasing reliance on this fund to keep up with automation.

In comparison, during 2007, fund balance decreases were reflected in the amounts of \$46,836 in the General Fund, of \$153,781 in the Building and Repair Fund, and of \$66,857 in the Automation Fund. Again, the changes in fund balance in the Building and Repair Fund and the Automation Fund reflects the increase in disbursements from these funds due to the frozen LLGSF fund and the Board's increasing reliance on these funds.

General Fund Budgetary Highlights

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

During the course of both 2008 and 2007, the Library amended both its appropriations and estimated receipts. The budgetary statement reflects both the original and final amounts appropriated.

Economic Factors

Funding from the State of Ohio for the Library and Local Government Support Fund was stagnant in 2007. In 2008, the funding mechanism changed to 2.2 percent of the State of Ohio's General Revenue Fund. While the Library's main funding stream was no longer frozen, the continued decline in Ohio's economy resulted in lower revenues in 2008. In both 2008 and 2007, the Library remained closed on Sunday afternoons and continued to not fill a part time position. The Library has decreased disbursements in many areas of the budget and moved disbursements to both the Building and Repair Fund and the Automation Fund as need dictated.

The Library will be challenged to continue to maintain the current level of services and programs due to rapidly declining receipts in 2008 and 2009 and ordinary inflation. The Board and Library administration have faced difficult decisions as the Library continued in an era of uncertain funding levels. The Library's circulation and use continues to grow even in periods of hard economic times. A stable funding stream for libraries will protect the quality of library service to our patrons.

Request for Information

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

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Muskingum County Library System, Muskingum County

Statement of Net Assets - Modified Cash Basis

December 31, 2008

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$2,415,152 |
| Investments | <u>1,750,063</u> |
| <i>Total Assets</i> | <u><u>\$4,165,215</u></u> |
| | |
| Net Assets | |
| Restricted for: | |
| Capital Projects | \$3,604,352 |
| Other Purposes | 136,997 |
| Unrestricted | <u>423,866</u> |
| <i>Total Net Assets</i> | <u><u>\$4,165,215</u></u> |

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2008

| | Program Cash Receipts | | | Net (Disbursements) |
|--------------------------------------|-----------------------|-------------------------------------|------------------------------------|------------------------------------|
| | Cash Disbursements | Charges for Services and Sales | Operating Grants and Contributions | Receipts and Changes in Net Assets |
| | | | Capital Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | |
| Public Services | | | | |
| General Public Services | \$2,331,777 | \$110,491 | \$20,267 | (\$2,201,019) |
| Purchased and Contracted Services | 462,359 | | | (462,359) |
| Library Materials and Information | 631,365 | | | (631,365) |
| Capital Outlay | 504,394 | | \$16,275 | (488,119) |
| <i>Total Governmental Activities</i> | <u>\$3,929,895</u> | <u>\$110,491</u> | <u>\$16,275</u> | <u>(3,782,862)</u> |
| | | General Receipts | | |
| | | Government Grants In Aid - LLGSF | | 3,097,181 |
| | | Interest | | 159,907 |
| | | Rental Income | | 8,357 |
| | | Miscellaneous | | 43,440 |
| | | <i>Total General Receipts</i> | | <u>3,308,885</u> |
| | | Change in Net Assets | | (473,977) |
| | | <i>Net Assets Beginning of Year</i> | | <u>4,639,192</u> |
| | | <i>Net Assets End of Year</i> | | <u>\$4,165,215</u> |

See accompanying notes to the basic financial statements

Muskingum County Library System Library, Muskingum County
Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
December 31, 2008

| | General | Building & Repair Fund | Automation Fund | Other Governmental Funds | Total Governmental Funds |
|--|------------------|---------------------------|--------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$423,866 | \$1,317,504 | \$445,570 | \$228,212 | \$2,415,152 |
| Investments | | 1,250,125 | 499,938 | | 1,750,063 |
| Total Assets | <u>\$423,866</u> | <u>\$2,567,629</u> | <u>\$945,508</u> | <u>\$228,212</u> | <u>\$4,165,215</u> |
| Fund Balances | | | | | |
| Reserved: | | | | | |
| Reserved for Encumbrances | \$87,458 | \$852 | \$38 | | \$88,348 |
| Unreserved: | | | | | |
| Undesignated (Deficit), Reported in: | | | | | |
| General Fund | 336,408 | | | | 336,408 |
| Special Revenue Funds | | | | \$136,997 | 136,997 |
| Capital Projects Funds | | 2,566,777 | 945,470 | 91,215 | 3,603,462 |
| Total Fund Balances | <u>\$423,866</u> | <u>\$2,567,629</u> | <u>\$945,508</u> | <u>\$228,212</u> | <u>\$4,165,215</u> |

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Receipts, Disbursements and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2008

| | General | Building & Repair Fund | Automation Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------------|---------------------------|-------------------------|--------------------------------|--------------------------------|
| Receipts | | | | | |
| Intergovernmental | \$3,097,181 | | | \$16,275 | \$3,113,456 |
| Patron Fines and Fees | 110,491 | | | | 110,491 |
| Contributions, Gifts and Donations | 18,000 | | | 2,267 | 20,267 |
| Earnings on Investments | 6,633 | \$108,753 | \$40,572 | 3,949 | 159,907 |
| Rental Income | 8,357 | | | | 8,357 |
| Miscellaneous | 43,440 | | | | 43,440 |
| <i>Total Receipts</i> | <u>3,284,102</u> | <u>108,753</u> | <u>40,572</u> | <u>22,491</u> | <u>3,455,918</u> |
| Disbursements | | | | | |
| Current: | | | | | |
| Public Services: | | | | | |
| General Public Services | 2,331,060 | | 717 | | 2,331,777 |
| Purchased and Contracted Services | 390,933 | 49,913 | 16,298 | 5,215 | 462,359 |
| Library & Materials Information | 631,365 | | | | 631,365 |
| Capital Outlay | 40,348 | 407,297 | 39,674 | 17,075 | 504,394 |
| <i>Total Disbursements</i> | <u>3,393,706</u> | <u>457,210</u> | <u>56,689</u> | <u>22,290</u> | <u>3,929,895</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(109,604)</u> | <u>(348,457)</u> | <u>(16,117)</u> | <u>201</u> | <u>(473,977)</u> |
| <i>Net Change in Fund Balances</i> | (109,604) | (348,457) | (16,117) | 201 | (473,977) |
| <i>Fund Balances Beginning of Year</i> | <u>533,470</u> | <u>2,916,086</u> | <u>961,625</u> | <u>228,011</u> | <u>4,639,192</u> |
| <i>Fund Balances End of Year</i> | <u><u>\$423,866</u></u> | <u><u>\$2,567,629</u></u> | <u><u>\$945,508</u></u> | <u><u>\$228,212</u></u> | <u><u>\$4,165,215</u></u> |

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2008

| | Budgeted Amounts | | Actual | (Optional) |
|--|------------------|------------------|------------------|---|
| | Original | Final | | Variance with Final Budget Positive (Negative) |
| Receipts | | | | |
| Intergovernmental | \$3,172,501 | \$3,097,181 | \$3,097,181 | \$0 |
| Patron Fines and Fees | 111,850 | 110,625 | 110,491 | (134) |
| Services Provided to Others | 8,700 | 8,350 | 8,357 | 7 |
| Contributions, Gifts and Donations | 16,000 | 17,630 | 18,000 | 370 |
| Earnings on Investments | 30,000 | 7,000 | 6,633 | (367) |
| Miscellaneous | 9,000 | 43,465 | 43,440 | (25) |
| <i>Total Receipts</i> | <u>3,348,051</u> | <u>3,284,251</u> | <u>3,284,102</u> | <u>(149)</u> |
| Disbursements | | | | |
| Current: | | | | |
| Public Services: | | | | |
| General Public Services | 2,433,808 | 2,420,120 | 2,344,472 | 75,648 |
| Purchased and Contracted Services | 473,387 | 471,281 | 413,964 | 57,317 |
| Library & Materials Information | 738,123 | 713,176 | 682,380 | 30,796 |
| Capital Outlay | 26,094 | 24,594 | 40,348 | (15,754) |
| <i>Total Disbursements</i> | <u>3,671,412</u> | <u>3,629,171</u> | <u>3,481,164</u> | <u>148,007</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(323,361)</u> | <u>(344,920)</u> | <u>(197,062)</u> | <u>147,858</u> |
| <i>Net Change in Fund Balance</i> | <u>(323,361)</u> | <u>(344,920)</u> | <u>(197,062)</u> | <u>147,858</u> |
| <i>Fund Balance Beginning of Year</i> | 417,470 | 417,470 | 417,470 | 0 |
| Prior Year Encumbrances Appropriated | <u>116,000</u> | <u>116,000</u> | <u>116,000</u> | <u>0</u> |
| <i>Fund Balance End of Year</i> | <u>\$210,109</u> | <u>\$188,550</u> | <u>\$336,408</u> | <u>\$147,858</u> |

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County

Statement of Net Assets - Modified Cash Basis

December 31, 2007

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$2,633,008 |
| Investments | <u>2,006,184</u> |
| <i>Total Assets</i> | <u><u>\$4,639,192</u></u> |
| | |
| Net Assets | |
| Restricted for: | |
| Capital Projects | \$3,973,319 |
| Other Purposes | 132,403 |
| Unrestricted | <u>533,470</u> |
| <i>Total Net Assets</i> | <u><u>\$4,639,192</u></u> |

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2007

| | Program Cash Receipts | | | Net (Disbursements) Receipts and Changes in Net Assets |
|--------------------------------------|-----------------------|--------------------------------------|--|--|
| | Cash Disbursements | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | |
| Public Services | | | | |
| General Public Services | \$2,345,215 | \$112,375 | \$88,550 | (\$2,144,290) |
| Purchased and Contracted Services | 493,383 | | | (493,383) |
| Library Materials and Information | 654,991 | | | (654,991) |
| Capital Outlay | 365,627 | | | (365,627) |
| <i>Total Governmental Activities</i> | <u>\$3,859,216</u> | <u>\$112,375</u> | <u>\$88,550</u> | <u>(3,658,291)</u> |
| | | General Receipts | | |
| | | | | 3,147,987 |
| | | | | 233,259 |
| | | | | 8,125 |
| | | | | 11,606 |
| | | | | <u>3,400,977</u> |
| | | | | |
| | | | | <u>70,787</u> |
| | | | | |
| | | | | <u>3,471,764</u> |
| | | | | |
| | | | | (186,527) |
| | | | | |
| | | | | <u>4,825,719</u> |
| | | | | |
| | | | | <u>\$4,639,192</u> |

See accompanying notes to the basic financial statements

Muskingum County Library System Library, Muskingum County
Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
December 31, 2007

| | General | Building & Repair Fund | Automation Fund | Other Governmental Funds | Total Governmental Funds |
|--|------------------|---------------------------|--------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$267,996 | \$1,675,327 | \$461,674 | \$228,011 | \$2,633,008 |
| Investments | 265,474 | 1,240,759 | 499,951 | | 2,006,184 |
| Total Assets | \$533,470 | \$2,916,086 | \$961,625 | \$228,011 | \$4,639,192 |
| Fund Balances | | | | | |
| Reserved: | | | | | |
| Reserved for Encumbrances | \$116,000 | \$226,525 | \$208 | \$4,200 | \$346,933 |
| Unreserved: | | | | | |
| Undesignated (Deficit), Reported in: | | | | | |
| General Fund | 417,470 | | | | 417,470 |
| Special Revenue Funds | | | | 132,402 | 132,402 |
| Capital Projects Funds | | 2,689,561 | 961,417 | 91,409 | 3,742,387 |
| Total Fund Balances | \$533,470 | \$2,916,086 | \$961,625 | \$228,011 | \$4,639,192 |

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Receipts, Disbursements and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2007

| | General | Building & Repair Fund | Automation Fund | Other Governmental Funds | Total Governmental Funds |
|--|------------------|---------------------------|--------------------|--------------------------------|--------------------------------|
| Receipts | | | | | |
| Intergovernmental | \$3,147,987 | | | | \$3,147,987 |
| Patron Fines and Fees | 112,375 | | | | 112,375 |
| Contributions, Gifts and Donations | 87,110 | | | \$1,440 | 88,550 |
| Earnings on Investments | 39,960 | \$145,502 | \$38,027 | 9,770 | 233,259 |
| Rental Income | 8,125 | | | | 8,125 |
| Miscellaneous | 11,606 | | | | 11,606 |
| <i>Total Receipts</i> | <u>3,407,163</u> | <u>145,502</u> | <u>38,027</u> | <u>11,210</u> | <u>3,601,902</u> |
| Disbursements | | | | | |
| Current: | | | | | |
| Public Services: | | | | | |
| General Public Services | 2,273,350 | | 1,078 | | 2,274,428 |
| Purchased and Contracted Services | 416,188 | 57,978 | 18,167 | 1,050 | 493,383 |
| Library & Materials Information | 654,991 | | | | 654,991 |
| Capital Outlay | 38,683 | 241,305 | 85,639 | | 365,627 |
| <i>Total Disbursements</i> | <u>3,383,212</u> | <u>299,283</u> | <u>104,884</u> | <u>1,050</u> | <u>3,788,429</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>23,951</u> | <u>(153,781)</u> | <u>(66,857)</u> | <u>10,160</u> | <u>(186,527)</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers In | | | | 70,787 | 70,787 |
| Transfers Out | (70,787) | | | | (70,787) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(70,787)</u> | <u>0</u> | <u>0</u> | <u>70,787</u> | <u>0</u> |
| <i>Net Change in Fund Balances</i> | (46,836) | (153,781) | (66,857) | 80,947 | (186,527) |
| <i>Fund Balances Beginning of Year</i> | <u>580,306</u> | <u>3,069,867</u> | <u>1,028,482</u> | <u>147,064</u> | <u>4,825,719</u> |
| <i>Fund Balances End of Year</i> | <u>\$533,470</u> | <u>\$2,916,086</u> | <u>\$961,625</u> | <u>\$228,011</u> | <u>\$4,639,192</u> |

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2007

| | Budgeted Amounts | | Actual | (Optional) Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|------------------|---|
| | Original | Final | | |
| Receipts | | | | |
| Intergovernmental | \$3,406,600 | \$3,147,987 | \$3,147,987 | \$0 |
| Patron Fines and Fees | 111,700 | 112,910 | 112,375 | (535) |
| Services Provided to Others | 8,250 | 8,125 | 8,125 | 0 |
| Contributions, Gifts and Donations | 15,000 | 86,165 | 87,110 | 945 |
| Earnings on Investments | 50,000 | 35,000 | 39,960 | 4,960 |
| Miscellaneous | 8,000 | 11,475 | 11,606 | 131 |
| <i>Total Receipts</i> | <u>3,599,550</u> | <u>3,401,662</u> | <u>3,407,163</u> | <u>5,501</u> |
| Disbursements | | | | |
| Current: | | | | |
| Public Services: | | | | |
| General Public Services | 2,328,230 | 2,259,157 | 2,279,878 | (20,721) |
| Purchased and Contracted Services | 496,535 | 442,585 | 436,948 | 5,637 |
| Library & Materials Information | 722,682 | 702,482 | 723,086 | (20,604) |
| Capital Outlay | 63,908 | 60,378 | 59,300 | 1,078 |
| <i>Total Disbursements</i> | <u>3,611,355</u> | <u>3,464,602</u> | <u>3,499,212</u> | <u>(34,610)</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(11,805)</u> | <u>(62,940)</u> | <u>(92,049)</u> | <u>(29,109)</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers Out | | (70,787) | (70,787) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>0</u> | <u>(70,787)</u> | <u>(70,787)</u> | <u>0</u> |
| <i>Net Change in Fund Balance</i> | (11,805) | (133,727) | (162,836) | (29,109) |
| <i>Fund Balance Beginning of Year</i> | 425,000 | 425,000 | 425,000 | 0 |
| Prior Year Encumbrances Appropriated | 155,306 | 155,306 | 155,306 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$568,501</u> | <u>\$446,579</u> | <u>\$417,470</u> | <u>(\$29,109)</u> |

See accompanying notes to the basic financial statements

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

Note 1 – Description of the Library and Reporting Entity

The Muskingum County Library System, Muskingum County (the Library), was organized as a county district library in 1988 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the Muskingum County Commissioners and the Muskingum County Common Pleas Court. Appointments are for seven year terms and members serve without compensation. Under Ohio statutes, the Library is a body corporate and politic capable of being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising the rights and privileges conveyed to it by the constitution and laws of Ohio. The Library also determines and operates under its own budget. Control and management of the Library is governed by Sections 3375.33 to 3375.39 of the Ohio Revised Code with administration of the day-to-day operations of the Library being the responsibility of the Director and the financial accountability being solely that of the Fiscal Officer. The Library provides the community with various educational and literary resources.

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

Reporting Entity

The Library is fiscally independent of Muskingum County, although the County serves in a ministerial capacity as the taxing authority for the Library. The determination to request approval of a tax levy, the role and purpose(s) of the levy, are discretionary decisions made solely by the Board of Library Trustees. Once those decisions are made, the Muskingum 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 Muskingum County.

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 Muskingum County

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 Friends of the Muskingum County Library System 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. Therefore, this organization has been excluded from the reporting entity of the Library.

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2C, the financial statements of the Library have been prepared on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP).

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

Note 2 – Summary of Significant Accounting Policies (continued)

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 modified cash basis of accounting. The most significant of the Library's accounting policies are described below.

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

A. Basis of Presentation

The Library's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and governmental 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.

The statement of net assets presents the cash and investment balances of the governmental activities of the Library at year end. The statement of activities compares disbursements with program receipts for each program or function of the Library's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the Library's general receipts.

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

B. Fund Accounting

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

Governmental Funds: Governmental funds are financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Library's major governmental funds:

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

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

Note 2 – Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

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

C. Basis of Accounting

The Library's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, 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. Any such modifications made by the Library are described in the appropriate section in this note.

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

D. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The appropriation resolution is the Board of Library Trustee's authorization to spend resources and set annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established at the fund level. Budgetary modifications at the legal level of control may only be made by resolution of the Board. The Fiscal Officer maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

For control purposes, 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 Board may appropriate. The estimated receipts may be revised during the year if projected increases or decreases in receipts are identified by the Fiscal Officer. 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 in effect when final appropriations were enacted by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal 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 Board during the fiscal year.

E. Cash and Investments

To improve cash management, cash received by the Library is pooled and invested. Individual fund integrity is maintained through the Library's records. The Library followed Ohio statutes for the allocation of interest earnings among the Library's funds. All funds received interest based on a prorated share of the pools fund balance at the time of the receipt of the interest. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

Note 2 – Summary of Significant Accounting Policies (continued)

E. Cash and Investments (continued)

Library records identify the purchase of specific investments by specific funds. Investments with original maturities of three months or less at the time they are purchased and investments of the cash management pool are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts, respectively.

During 2008, investments were limited to Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Notes and nonnegotiable certificates of deposit. Investments are recorded at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the General Fund during 2008 amounted to \$6,633 and \$39,960 in 2007.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are imposed by creditors, contributors, grantors or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent donations made for a specific purpose. Restricted assets at December 31, 2008 consisted of \$59,095 donated for use at the Roseville Branch Library.

G. Inventory and Prepaid Items

The Library reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Library's modified cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The Library recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

Note 2 – Summary of Significant Accounting Policies (continued)

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include those in the Building & Repair Fund, Automation Fund and Permanent Art Improvement Fund.

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

L. Fund Balance Reserves

The Library reserves any portion of fund balance which is not available for appropriation or expenditure or which is legally segregated for a specific future use. Fund reserves have been established for encumbrances. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

Note 3 – Grants-in-aid and Tax Receipts

The primary source of revenue for Ohio Public Libraries is the Public Library Fund (PLF). The PLF is 2.22 percent of the State of Ohio's General Revenue Fund. The PLF is allocated to each county based on the county's prior year PLF and its population. The County Budget Commission allocated these fund to the Library based on its needs such as the construction of new library buildings, improvements, operation, maintenance or other expenses. The Budget Commission cannot reduce its allocation of these fund to the Library based on any additional revenue the Library receives. In 2007 the primary source of revenue was from the Library and Local Government Support Fund (LLGSF). LLGSF was 5.7 percent of the State personal income tax. It was frozen through December 2007 at the 2001 level. SB 185 changed the name of the fund to Public Library Fund in June of 2008.

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 – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year-end encumbrances, which are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$87,458 and \$116,000 for the years ended December 31, 2008 and 2007, respectively.

Note 5 – Deposits and Investments

State statutes classify monies held by the Library 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 Board has 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.

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

Note 5 – Deposits and Investments (continued)

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.

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) above 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 (STAROhio).

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.

At year end, the Library had \$365 in undeposited cash on hand, which is included as part of "Equity in Pooled Cash and Cash Equivalents"

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Library will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2008, \$760,742 of the Library's deposits were exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Library's name.

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

Note 5 – Deposits and Investments (continued)

The Library has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited with the Library or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

The Library had the following investments at December 31, 2008:

| <u>Investment Type</u> | <u>Value</u> | <u>< 1 Year</u> | <u>1 to 3 Years</u> | <u>3 to 5 Years</u> |
|------------------------------------|--------------------|--------------------|---------------------|---------------------|
| Federal Agency Securities | \$ 1,750,063 | \$ 0 | \$ 749,938 | \$ 1,000,125 |
| Negotiable Certificates of Deposit | 948,271 | 948,271 | 0 | 0 |
| Total Investments | <u>\$2,698,334</u> | <u>\$ 948,271</u> | <u>\$ 749,938</u> | <u>\$ 1,000,125</u> |

Interest rate risk arises because of the fair value of investment changes as interest rates change. The Library's investment policy addresses interest rate risk by requiring that the Library's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

The Federal National Mortgage Association notes, Federal Home Loan Mortgage Corporation notes and Federal Home Loan Bank notes carry a rating of AAA by Standard & Poor's. The Library has no investment policy dealing with investment credit risk beyond the requirements in state statutes.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that in the possession of an outside party. The Federal National Mortgage Association notes, Federal Home Loan Mortgage Corporation notes and the Federal Home Loan Bank notes are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department but not in the Library's name. The Library has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Note 6 – Risk Management

The library is exposed to various risks of loss related to torts; theft of, damage to, and destructions of assets; errors and omissions; injuries to employees; and natural disasters. During 2008, the Library contracted with several companies for various types of insurance coverage as follows:

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

Note 6 – Risk Management (Continued)

| Company | Type of Coverage | Amount of Coverage |
|------------------------------|--|--------------------|
| Utica National | Commercial Property | \$15,018,788 |
| | Liability | 2,000,000 |
| | Commercial Crime | 100,000 |
| | Inland Marine | 6,683,144 |
| | Vehicle | 1,000,000 |
| | Employee Dishonesty | 100,000 |
| | Employee Benefits Liability | 1,000,000 |
| American International Group | Volunteer | 300,000 |
| | Directors & Officers, Employment Practices | 2,000,000 |

The Library pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on an accident history and administrative costs. The system administers and pays all claims.

Note 7 – Defined Benefit Pension Plan

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 OPERS to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 227 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, members in state and local classifications contributed 10 percent of covered payroll. For the year ended December 31, 2007, members in state and local classifications contributed 9.5 percent of covered payroll.

The Library's contribution rate for 2008 was 14% of covered payroll. The Library's contribution rate for 2007 was 13.85. For 2008, a portion of the Library's contribution equal to 7 percent of covered payroll was allocated to fund the post-employment healthcare plan. For the period of January 1 through June 30, 2007, 5 percent of covered payroll was allocated for post-employment healthcare plan; for the period July 1 through December 31, 2007 this amount was increased to 6 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the Library of 14 percent.

The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2008, 2007 and 2006 were \$119,410, \$146,094 and \$141,146, respectively. The full amount has been contributed for 2008, 2007 and 2006. No contributions were made to the member directed plan.

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

Note 8 – Post-employment Benefits

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment healthcare. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

To qualify for post-employment healthcare coverage, age and service retirees under the traditional and combined plans must have ten years or more of qualifying Ohio service credit. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide healthcare benefits to eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are provided separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment healthcare.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2008, local government employers contributed 14 percent of covered payroll. Each year, the OPERS retirement board determines the portion of the employer contribution that can be set aside for funding post-employment healthcare benefits. The amount of employer contributions which was allocated to fund post-employment healthcare was 7 percent of covered payroll from January 1 through December 31, 2008. The amount of employer contributions which was allocated to fund post-employment healthcare was 5 percent of covered payroll from January 1 through June 30, 2007, and 6 percent from July 1 through December 31, 2007.

The Retirement Board is also authorized to establish rules for payment of a portion of the healthcare benefits by the retiree or retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and selected coverage.

The Library's contributions allocated to fund post-employment healthcare benefits for the years ended December 31, 2008, 2007 and 2006 were \$119,410, \$96,229 and \$69,039, respectively. The full amount has been contributed for 2008, 2007 and 2006.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the healthcare plan.

Note 9 – Other Employee Benefits

Insurance Benefits – The Library provides health coverage to full time employees through Aultra. Employees may purchase dental coverage through Brokers National.

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2008 and 2007

Note 9 – Other Employee Benefits (continued)

Deferred Compensation – Employees of the Library may elect to participate in the Ohio Public Employees Deferred Compensation Plan. Under this program, employees elect to defer a portion of their pay. The deferred pay, and any income earned on it, are not subject to federal and state income taxation until actually received by the employee. Participation in the plan is optional. The deferred compensation is not available to employees until termination of employment, retirement, death or unforeseen emergency.

Note 10 – Interfund Transfer

In 2007, the General Fund transferred \$70,787 to the Penny Gibson Special Revenue Fund. This money was left to the library by Ms. Penny Gibson without specification. The Board of Trustees intend to use it for a future special purpose.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Muskingum County Library System, Muskingum County, Ohio (the Library), as of and for the years ended December 31, 2008 and 2007, which collectively comprise the Library's basic financial statements and have issued our report thereon dated July 13, 2009. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Library's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Library's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Library's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Library's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

July 13, 2009



Mary Taylor, CPA
Auditor of State

MUSKINGUM COUNTY LIBRARY SYSTEM

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 1, 2009**