



**GRAFTON - MIDVIEW PUBLIC LIBRARY  
LORAIN COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2003 & 2002**



**Auditor of State  
Betty Montgomery**



**GRAFTON-MIDVIEW PUBLIC LIBRARY  
LORAIN COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

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, 2003 and December 31, 2002. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 that our audits provide a reasonable basis for our opinion.

As described in Note 1, the Library prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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, Ohio, as of December 31, 2003 and December 31, 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Grafton-Midview Public Library  
Lorain County  
Independent Accountants' Report  
Page 2

This report is intended solely for the information and use of, the audit committee, management, Board of Trustees and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

May 25, 2004

**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, 2003**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Other Government Grants-In-Aid	\$552,909			\$552,909
Patron Fines and Fees	19,785			19,785
Earnings on Investments	2,185		\$1,228	3,413
Contributions, Gifts and Donations	5,685			5,685
Miscellaneous Receipts	665			665
	<u>581,229</u>	<u>0</u>	<u>1,228</u>	<u>582,457</u>
<b>Total Cash Receipts</b>				
<b>Cash Disbursements:</b>				
Current:				
Salaries and Benefits	355,882			355,882
Purchased and Contracted Services	79,462			79,462
Library Materials and Information	61,936			61,936
Supplies	6,519			6,519
Other Objects	3,615			3,615
Capital Outlay	20,823		5,218	26,041
	<u>528,237</u>	<u>0</u>	<u>5,218</u>	<u>533,455</u>
<b>Total Cash Disbursements</b>				
<b>Total Cash Receipts Over/(Under) Cash Disbursements</b>	<u>52,992</u>	<u>0</u>	<u>(3,990)</u>	<u>49,002</u>
<b>Other Financing Receipts/(Disbursements):</b>				
Transfers-In				0
Transfers-Out				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Other Financing Receipts/(Disbursements)</b>				
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	52,992	0	(3,990)	49,002
<b>Fund Cash Balances, January 1</b>	<u>188,108</u>	<u>14,218</u>	<u>112,328</u>	<u>314,654</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$241,100</b></u>	<u><b>\$14,218</b></u>	<u><b>\$108,338</b></u>	<u><b>\$363,656</b></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  
NONEXPENDABLE TRUST FUND  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<b>Fiduciary Fund Type</b>
	<b>Nonexpendable Trust</b>
<b>Operating Cash Receipts:</b>	
Patron Fees and Fines	\$0
Services Provided to Other Entities	
	0
Total Operating Cash Receipts	0
<b>Operating Cash Disbursements:</b>	
Current:	
Salaries and Benefits	
Purchased and Contracted Services	
Other Objects	
Capital Outlay	
	0
Total Operating Cash Disbursements	0
Operating Income/(Loss)	0
<b>Non-Operating Cash Receipts:</b>	
Government Grants In Aid	
Earnings on Investments	
Proceeds of Bonds	
Proceeds of Notes	
Proceeds from Sales of Property	
Other Non-Operating Receipts	
	0
Total Non-Operating Cash Receipts	0
<b>Non-Operating Cash Disbursements:</b>	
Other Non-Operating Disbursements	
Fees	
Loss on Investments	
	0
Total Non-Operating Cash Disbursements	0
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	0
Transfers-In	
Transfers-Out	
	0
Net Receipts Over/(Under) Disbursements	0
Fund Cash Balance, January 1	200,000
<b>Fund Cash Balance, December 31</b>	<b>\$200,000</b>

*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, 2002**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Other Government Grants-In-Aid	\$556,771			\$556,771
Patron Fines and Fees	13,909			13,909
Earnings on Investments	3,028		\$2,000	5,028
Contributions, Gifts and Donations	1,655			1,655
Miscellaneous Receipts	<u>3,952</u>			<u>3,952</u>
Total Cash Receipts	<u>579,315</u>	<u>0</u>	<u>2,000</u>	<u>581,315</u>
<b>Cash Disbursements:</b>				
Current:				
Salaries and Benefits	355,104			355,104
Purchased and Contracted Services	85,648			85,648
Library Materials and Information	88,793	3,500		92,293
Supplies	12,278			12,278
Other Objects	2,405			2,405
Capital Outlay	<u>38,359</u>			<u>38,359</u>
Total Cash Disbursements	<u>582,587</u>	<u>3,500</u>	<u>0</u>	<u>586,087</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(3,272)</u>	<u>(3,500)</u>	<u>2,000</u>	<u>(4,772)</u>
<b>Other Financing Receipts/(Disbursements):</b>				
Transfers-In				0
Transfers-Out				<u>0</u>
Total Other Financing Receipts/(Disbursements)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(3,272)	(3,500)	2,000	(4,772)
Fund Cash Balances, January 1	<u>191,380</u>	<u>17,718</u>	<u>110,328</u>	<u>319,426</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$188,108</u></b>	<b><u>\$14,218</u></b>	<b><u>\$112,328</u></b>	<b><u>\$314,654</u></b>

*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  
NONEXPENDABLE TRUST FUND  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<b>Fiduciary Fund Type</b>
	<b>Nonexpendable Trust</b>
<b>Operating Cash Receipts:</b>	
Patron Fees and Fines	\$0
Services Provided to Other Entities	
Total Operating Cash Receipts	0
<b>Operating Cash Disbursements:</b>	
Current:	
Salaries and Benefits	
Purchased and Contracted Services	
Other Objects	
Capital Outlay	
Total Operating Cash Disbursements	0
Operating Income/(Loss)	0
<b>Non-Operating Cash Receipts:</b>	
Government Grants In Aid	
Earnings on Investments	
Proceeds of Bonds	
Proceeds of Notes	
Proceeds from Sales of Property	
Other Non-Operating Receipts	
Total Non-Operating Cash Receipts	0
<b>Non-Operating Cash Disbursements:</b>	
Other Non-Operating Disbursements	
Fees	
Loss on Investments	
Total Non-Operating Cash Disbursements	0
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	0
Transfers-In	
Transfers-Out	
Net Receipts Over/(Under) Disbursements	0
Fund Cash Balance, January 1	200,000
<b>Fund Cash Balance, December 31</b>	<b>\$200,000</b>

*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, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

Grafton-Midview Public Library, Lorain County, Ohio, (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.

Component units are legally separate organizations for which the Library is financially accountable. Component units may also include organizations that provide significant on going financial support to the Library. The Library has no component units.

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 prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when an expenditure is made.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**C. Cash and Investments**

Investments are included in fund cash balances. 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 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 is the general operating fund. It is used to account 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, 2003 AND 2002  
(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 Project 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 project fund:

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

**3. 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 fiduciary 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, function level of control.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

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

**G. Accumulated Leave**

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

**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.

**GRAFTON-MIDVIEW PUBLIC LIBRARY  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(CONTINUED)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	2003	2002
Demand deposits	\$63,409	\$52,800
Petty cash and change cash	100	100
Total deposits	63,509	52,900
Hendrix Fund (Treasury Notes & Equity Securities)	200,000	200,000
STAR Ohio	300,147	261,754
Total investments	500,147	461,754
Total deposits and investments	\$563,656	\$514,654

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation.

**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 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 2003 and 2002:

Initial Deposit On 10/31/2000	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 10/31/2000	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**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(CONTINUED)**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2003 and December 31, 2002 follows:

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$689,472	\$528,237	\$161,235
Special Revenue	0	0	0
Capital Projects	25,000	5,218	19,782
Nonexpendable Trust	0	0	0
Total	\$714,472	\$533,455	\$181,017

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$763,980	\$582,587	\$181,393
Special Revenue	10,000	3,500	6,500
Capital Projects	25,000	0	25,000
Nonexpendable Trust	0	0	0
Total	\$798,980	\$586,087	\$212,893

**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 LLGSF is allocated to each county based on the county's prior intangibles tax of LLGSF revenues, and its population. The County Budget Commission allocates these funds to the Library based on its needs such as for the construction of new library buildings, improvements, operation, maintenance, or other expenses. The Budget Commission cannot reduce its allocation of these funds to the Library based on any additional revenues the Library receives. These revenues are reflected in the financial statements as Other Government Grants-In-Aid.

**5. RETIREMENT SYSTEM**

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

Contribution rates are prescribed by the Ohio Revised Code. The Library's OPERS members contributed 8.5% of their gross salaries. The Library contributed an amount equal to 13.55% of participants' gross salaries from January 1, 2002 through December 31, 2003. The Library has paid all contributions required through December 31, 2003.

**GRAFTON-MIDVIEW PUBLIC LIBRARY  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(CONTINUED)**

**6. RISK MANAGEMENT**

**Commercial Insurance**

The 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.

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

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, 2003, and December 31, 2002, and have issued our report thereon dated May 25, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 to be 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 the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-001.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of 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 considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Library in a separate letter dated May 25, 2004.

This report is intended solely for the information and use of management and Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

May 25, 2004

**GRAFTON-MIDVIEW PUBLIC LIBRARY  
LORAIN COUNTY  
DECEMBER 31, 2003 AND 2002**

**SCHEDULE OF FINDINGS**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<b>FINDING NUMBER</b>	<b>2003-001</b>
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**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 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. To date, the Library has not purchased a single item 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 10/31/2000	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 10/31/2000	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 10/31/2000	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 10/31/2000	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  
DECEMBER 31, 2003 AND 2002**

**SCHEDULE OF FINDINGS  
(Continued)**

<b>FINDING NUMBER</b>	<b>2003-001</b>
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The Library had investments which produced dividend and interest income. For example, on February 14, 2003, the Hendrix Memorial Book Fund Statement of Account reflected \$41 in dividend income from an investment in Proctor and Gamble Company. Similarly, on August 15, 2003 the Hendrix Memorial Book Fund Statement of Account reflected \$818 in interest income on U.S. Treasury Notes. However, the Library has also paid quarterly fees and agency tax prep fees of \$3,935 between January 1, 2001 and December 31, 2003. The net effect of the gains and losses is reflected in 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.



**Auditor of State  
Betty Montgomery**

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**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  
JUNE 24, 2004**