



Mary Taylor, CPA
Auditor of State

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Mechanicsburg Public Library
Champaign County
60 South Main Street
Mechanicsburg, Ohio 43044

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities and each major fund of Mechanicsburg Public Library, Champaign County, Ohio (the Library), as of and for the years ended December 31, 2007 and 2006, 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.

The Library processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Library because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully 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 modified cash financial position of the governmental activities and each major fund of Mechanicsburg Public Library, Champaign County, as of December 31, 2007 and 2006, and the respective changes in modified cash financial position and the respective budgetary comparison for the General and Trust 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 15, 2008 on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the 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 15, 2008

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED**

This discussion and analysis of the Mechanicsburg Public Library's, (the Library) financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2007, within the limitations of the Library's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

Highlights

Key highlights for 2007 are as follows:

- Net assets of governmental activities increased \$5,177 or 1%, an insignificant change from the prior year. The fund most affected by the increase in cash and cash equivalents was the General Fund.
- The Library's general receipts are primarily library and local government support money. This receipt type represents 87.2 percent or \$311,660 of the total cash received for governmental activities during the year. Library and local government support receipts for 2007 changed very little compared to 2006 as development within the Library has slowed.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

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

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

Reporting the Library as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2007, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances of the governmental and business-type activities of the Library at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Library's general receipts.

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

In the statement of net assets and the statement of activities, the Library presents Governmental Activities.

Governmental activities: All of the Library's basic services are reported here. Library and local government support finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Library's Most Significant Funds

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

Governmental Funds - All of the Library's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Library's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Library's programs. The Library's significant governmental funds are presented on the financial statements in separate columns. The Library's major governmental funds are the General, Trust, and Building Funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

The Library as a Whole

Table 1 provides a summary of the Library's net assets for 2007 compared to 2006 on a modified cash basis:

**(Table 1)
Net Assets**

	Governmental Activities	
	2007	2006
Assets		
Cash and Cash Equivalents	\$27,180	\$13,616
Investments	555,445	563,832
Total Assets	582,625	577,448
Net Assets		
Restricted for:		
Capital Projects	347,684	333,846
Other Purposes	198,776	193,554
Unrestricted	36,165	50,048
Total Net Assets	\$582,625	\$577,448

As mentioned previously, net assets of governmental activities increased \$5,177 or 1 percent during 2007. The primary reasons contributing to the increases in cash balances are as follows:

- Increased earnings on investments.
- Controlled spending.

Table 2 reflects the changes in net assets in 2007 compared to 2006 on a modified cash basis:

**(Table 2)
Changes in Net Assets**

	Governmental Activities	
	2007	2006
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$ 7,801	\$ 7,513
Operating Grants and Contributions	6,362	1,224
Total Program Receipts	14,163	8,737
General Receipts:		
Library and Local Government Support	311,660	311,660
Unrestricted Gifts and Contributions	2,985	14,020
Earnings on Investments	28,424	28,238
Miscellaneous	191	268
Total General Receipts	343,260	354,186
Total Receipts	357,423	362,923

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

**(Table 2)
Changes in Net Assets
(Continued)**

	Governmental Activities	
	2007	2006
Disbursements:		
Library Services	337,896	360,224
Capital Outlay	10,760	20,128
Other	3,590	
Total Disbursements	<u>352,246</u>	<u>380,352</u>
Increase (Decrease) in Net Assets	5,177	(17,429)
Net Assets, January 1, 2007	<u>577,448</u>	<u>594,877</u>
Net Assets, December 31, 2007	<u><u>\$582,625</u></u>	<u><u>\$577,448</u></u>

Program receipts represent only 4 percent of total receipts and are primarily comprised of library patron fines and fees.

General receipts represent 96 percent of the Library's total receipts, and of this amount, over 90.7 percent are library and local government support revenues. Gifts, contributions, and interest make up the balance of the Library's general receipts (9.2 percent). Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for Library Services represent the costs of running the Library and the support services provided for the other Library activities. These include the costs of library materials and employee salaries and benefits.

Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the Library. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for library services, which account for 95.9 percent of all governmental disbursements. The next two columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Library that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by library and local government support. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2007	Net Cost of Services 2007
Library Services	\$337,896	(\$323,733)
Capital Outlay	10,760	10,760
Other	3,590	(3,590)
Total Expenses	<u><u>\$352,246</u></u>	<u><u>(\$338,083)</u></u>

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2006	Net Cost of Services 2006
Library Services	\$360,224	(\$351,487)
Capital Outlay	20,128	(20,128)
Total Expenses	<u>\$380,352</u>	<u>(\$371,615)</u>

The dependence upon library and local government support is apparent as over 92.2 percent of governmental activities are supported through these general receipts.

The Library's Funds

Total governmental funds had receipts of \$357,423 and disbursements of \$352,246. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$13,883 as the result of increased costs for salaries and benefits and not achieving anticipated growth in library and local government support.

General Fund receipts were less than disbursements by \$13,883 indicating that the General Fund is in a deficit spending situation. The Trust and Building Funds balances increased \$5,222 and \$13,838, respectively, from prior year due to interest received and limited expenses occurred.

General Fund Budgeting Highlights

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

For 2007, the Library's budgeted receipts changed slightly from original budgeted receipts. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$379,525 while actual disbursements were \$345,387. The Library kept spending reasonably close to budgeted amounts as demonstrated by the minor reported variances. The result is the decrease in fund balance of \$13,883 for 2007

Capital Assets and Debt Administration

Capital Assets

At December 31, 2007, the Library did not report capital assets.

Debt

At December 31, 2007, the Library had no outstanding debt.

Current Issues

The challenge for all Libraries is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on library and local government support and future reductions are expected in funding. The Building and Trust fund monies will be utilized more in the future to offset decreasing library and local government support and increasing expenses.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors with a general overview of the Library's finances and to reflect the Library's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Lila L. Stewart, Clerk-Treasurer, Mechanicsburg Public Library, 60 S. Main St., Mechanicsburg, OH 43044.

MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2007

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$27,180
Investments	<u>555,445</u>
Total Assets	<u><u>582,625</u></u>
Net Assets	
Restricted for:	
Capital Projects	347,684
Other Purposes	198,776
Unrestricted	<u>36,165</u>
Total Net Assets	<u><u>\$582,625</u></u>

See accompanying notes to the basic financial statements.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	General Fund	Trust Fund	Building Fund	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$27,162		\$19	\$27,181
Investments	9,003	\$198,775	347,666	555,444
Total Assets	36,165	198,775	347,685	582,625
Fund Balances				
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	36,165			36,165
Special Revenue Funds		198,775		198,775
Capital Projects Funds			347,685	347,685
Total Fund Balances	\$36,165	\$198,775	\$347,685	\$582,625

See accompanying notes to the basic financial statements.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN
MODIFIED-CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General Fund</u>	<u>Trust Fund</u>	<u>Building Fund</u>	<u>Total</u>
Receipts				
Library and Local Government Support	\$311,660			\$311,660
Patron, Fines and Fees	7,801			7,801
Contributions, Gifts and Donations	9,347			9,347
Earnings on Investments	2,505	\$8,812	\$17,107	28,424
Miscellaneous	191			191
Total Receipts	<u>331,504</u>	<u>8,812</u>	<u>17,107</u>	<u>357,423</u>
Disbursements				
Current:				
Library Services	337,896			337,896
Capital Outlay	7,491		3,269	10,760
Total Disbursements	<u>345,387</u>		<u>3,269</u>	<u>348,656</u>
Excess of Receipts Over (Under) Disbursements	<u>(13,883)</u>	<u>8,812</u>	<u>13,838</u>	<u>8,767</u>
Other Financing Uses		<u>(3,590)</u>		<u>(3,590)</u>
Net Change in Fund Balances	(13,883)	5,222	13,838	5,177
Fund Balances Beginning of Year	<u>50,048</u>	<u>193,553</u>	<u>333,847</u>	<u>577,448</u>
Fund Balances End of Year	<u>\$36,165</u>	<u>\$198,775</u>	<u>\$347,685</u>	<u>\$582,625</u>

See accompanying notes to the basic financial statements.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Library and Local Government Support	\$311,660	\$311,660	\$311,660	
Patron, Fines and Fees	9,000	9,000	7,801	(\$1,199)
Contributions, Gifts and Donations	3,000	6,850	9,347	2,497
Earnings on Investments	14,447	14,447	2,505	(11,942)
Miscellaneous	500	500	191	(309)
Total receipts	<u>338,607</u>	<u>342,457</u>	<u>331,504</u>	<u>(10,953)</u>
Disbursements				
Current:				
Library Services	369,625	371,025	337,896	33,129
Capital Outlay	10,000	8,500	7,491	1,009
Total Disbursements	<u>379,625</u>	<u>379,525</u>	<u>345,387</u>	<u>34,138</u>
Net Change in Fund Balance	(41,018)	(37,068)	(13,883)	23,185
Fund Balance Beginning of Year	<u>50,048</u>	<u>50,048</u>	<u>50,048</u>	
Fund Balance End of Year	<u>\$9,030</u>	<u>\$12,980</u>	<u>\$36,165</u>	<u>\$23,185</u>

See accompanying notes to the basic financial statements.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Earnings on Investments	\$8,971	\$8,971	\$8,812	(\$159)
Total receipts	<u>8,971</u>	<u>8,971</u>	<u>8,812</u>	<u>(159)</u>
Other Financing Sources (Uses)				
Other Financing Uses	(38,000)	(23,000)	(3,590)	19,410
Total Other Financing Sources (Uses)	<u>(38,000)</u>	<u>(23,000)</u>	<u>(3,590)</u>	<u>19,410</u>
Net Change in Fund Balance	(29,029)	(14,029)	5,222	19,251
Fund Balance Beginning of Year	<u>193,553</u>	<u>193,553</u>	<u>193,553</u>	
Fund Balance End of Year	<u><u>\$164,524</u></u>	<u><u>\$179,524</u></u>	<u><u>\$198,775</u></u>	<u><u>\$19,251</u></u>

See accompanying notes to the basic financial statements.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

1. DESCRIPTION OF THE LIBRARY AND REPORTING ENTITY

The Mechanicsburg Public Library, Champaign County, (the Library) was organized as a school district public library in 1948 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the Mechanicsburg Board of Education. Appointments are for seven-year terms and members serve without compensation. Under Ohio statutes, the Library is a body politic and corporate capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. Control and management of the Library is governed by sections 3375.33 to 3375.39 of the Ohio Revised Code with the administration of the day-to-day operations of the Library being the responsibility of the Director and financial accountability being solely that of the Clerk-Treasurer.

The Library is fiscally independent of the Board of Education, although the Board of Education 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 Board of Education must put the levy on the ballot. There is no potential for the Library to provide a financial benefit to or impose a financial burden on the Board of Education.

Under the provisions of Statement No. 14 of the Governmental Accounting Standards Board, "The Financial Reporting Entity," the Library is considered to be a related organization of the Mechanicsburg Exempted Village School District.

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 Mechanicsburg Public Library, Inc. 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. The Library does not have the ability to access a majority of the organization's economic resources nor is the organization significant to the Library; therefore, this organization has been excluded from the reporting entity of the Library.

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

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, 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). 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. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The most significant of the Library's accounting policies are described below.

A. Basis of Presentation

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

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. These statements include the financial activities of the primary government. Governmental activities generally are financed through library and local government support.

The statement of net assets presents the cash balance of the governmental activities of the Library at year end. The statement of activities compares disbursements with program receipts for each of the Library's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Library is responsible. Program receipts include charges paid by the recipient of the program's goods or services and contributions restricted to meeting the operational requirements of a particular program, and receipts of interest earned on revenues 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.

2. Fund Financial Statements

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

B. Fund Accounting

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The Library's funds are governmental.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds

Governmental funds are financed primarily from library and local government support. Monies 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 accounts 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.

Trust Fund – The trust fund accounts for donated monies and earned interest set aside for book purchases and building improvements.

Building Fund - The building and repair fund accounts for monies set aside by the Board of Library Trustees specifically for capital 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 the use 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 expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

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

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 Trustees may appropriate. The estimated receipts may be revised during the year if projected increases or decreases in receipts are identified by the Clerk Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriations were enacted by the Trustees.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Cash and Cash Equivalents

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

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 (contra revenue), respectively.

During 2007, investments were limited to STAR Ohio and nonnegotiable certificates of deposit, which are recorded at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2007.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the general fund during 2007 amounted to \$2,505.

F. 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.

G. 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 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. Long-Term Obligations

The Library's modified cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for purchasing books and capital improvements.

J. Fund Balance Reserves

Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

K. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements. The Library had no interfund transactions during the year.

3. BUDGETARY BASIS OF ACCOUNTING

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

4. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the 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.

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.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS

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

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

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 \$100 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Library will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, none of the Library's bank balance of \$40,888 was 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.

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 either 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.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

As of December 31, 2007, the Library had the following investment:

	<u>Carrying Value</u>	<u>Maturity</u>
STAR Ohio	<u>\$555,444</u>	< 1 year

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. 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, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

STAR Ohio carries a rating of AAAm by Standard and Poor's. The Library has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

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 are in the possession of an outside party. 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."

5. LIBRARY AND LOCAL GOVERNMENT SUPPORT

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

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

6. RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2007, the Library contracted for various types of insurance coverage as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Utica National Insurance Group	Commercial Property	\$ 761,472
	Personal Property	43,160
	General Liability	1,000,000
	Commercial Crime	50,000
	Inland Marine	1,116,596
	Vehicle	1,000,000
	Errors and Omissions	1,000,000
	Library Officials	5,000
	Fidelity and Deposit	5,000

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

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

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

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, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

7. DEFINED BENEFIT PENSION PLAN (Continued)

For the year ended December 31, 2007, the members of all three plans were required to contribute 9.5 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2007 was 13.85 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 were \$26,227, \$26,665 and \$24,199 respectively; the full amount has been contributed for 2007, 2006, and 2005.

8. POST-EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2007 which were used to fund post-employment benefits were \$7,658. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2006, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

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**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

This discussion and analysis of the Mechanicsburg Public Library's, (the Library) financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2006, within the limitations of the Library's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

Highlights

Key highlights for 2006 are as follows:

- Net assets of governmental activities decreased \$17,429 or 2.9%, an insignificant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the General Fund, which realized the greatest burden of increased costs in 2006; however, cost increases affected most funds.
- The Library's general receipts are primarily library and local government support money. This receipt type represents 85.8 percent or \$311,660 of the total cash received for governmental activities during the year. Library and local government support receipts for 2006 changed very little compared to 2005 as development within the Library has slowed.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

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

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Reporting the Library as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2006, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances of the governmental and business-type activities of the Library at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Library's general receipts.

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

In the statement of net assets and the statement of activities, the Library presents Governmental Activities.

Governmental activities: All of the Library's basic services are reported here. Library and local government support finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Library's Most Significant Funds

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

Governmental Funds - All of the Library's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Library's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Library's programs. The Library's significant governmental funds are presented on the financial statements in separate columns. The Library's major governmental funds are the General, Trust, and Building Funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

The Library as a Whole

Table 1 provides a summary of the Library's net assets for 2006 compared to 2005 on a modified cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Cash and Cash Equivalents	\$13,616	\$186,803
Investments	563,832	408,074
Total Assets	577,448	594,877
Net Assets		
Restricted for:		
Capital Projects	333,846	319,331
Other Purposes	193,554	216,528
Unrestricted	50,048	59,018
Total Net Assets	\$577,448	\$594,877

As mentioned previously, net assets of governmental activities decreased \$17,429 or 2.9 percent during 2006. The primary reasons contributing to the decreases in cash balances are as follows:

- Health benefit costs grew substantially.
- Increases in salaries ranging from 3% to 4% based on approved rates.

Table 2 reflects the changes in net assets in 2006 compared to 2005 on a modified cash basis.

(Table 2)
Changes in Net Assets

	Governmental Activities	
	2006	2005
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$ 7,513	\$ 7,604
Operating Grants and Contributions	1,224	19
Total Program Receipts	8,737	7,623
General Receipts:		
Library and Local Government Support	311,660	311,660
Unrestricted Gifts and Contributions	14,020	11,300
Earnings on Investments	28,238	16,130
Miscellaneous	268	762
Total General Receipts	354,186	339,852
Total Receipts	362,923	347,475

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

**(Table 2)
Changes in Net Assets
(Continued)**

	Governmental Activities	
	2006	2005
Disbursements:		
Library Services	360,224	334,385
Capital Outlay	20,128	15,119
Other		5,020
Total Disbursements	<u>380,352</u>	<u>354,624</u>
Increase (Decrease) in Net Assets	(17,429)	(7,149)
Net Assets, January 1, 2006	<u>594,877</u>	<u>602,026</u>
Net Assets, December 31, 2006	<u>\$577,448</u>	<u>\$594,877</u>

Program receipts represent only 2.4 percent of total receipts and are primarily comprised of library patron fines and fees.

General receipts represent 97.6 percent of the Library's total receipts, and of this amount, over 87.9 percent are library and local government support revenues. Gifts, contributions, and interest make up the balance of the Library's general receipts (11.93 percent). Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for Library Services represent the costs of running the Library and the support services provided for the other Library activities. These include the costs of library materials and employee salaries and benefits.

Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the Library. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for library services, which account for 94.7 percent of all governmental disbursements. The next two columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Library that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by library and local government support. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2006	Net Cost of Services 2006
	Library Services	\$360,224
Capital Outlay	\$20,128	(\$20,128)
Total Expenses	<u>\$380,352</u>	<u>(\$371,615)</u>

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2005	Net Cost of Services 2005
Library Services	\$334,485	(\$326,862)
Capital Outlay	15,119	(15,119)
Other	5,020	(5,020)
Total Expenses	\$354,624	(\$347,001)

The dependence upon library and local government support is apparent as over 83.9 percent of governmental activities are supported through these general receipts.

The Library's Funds

Total governmental funds had receipts of \$362,923 and disbursements of \$380,352. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$8,970 as the result of increased costs for salaries and benefits and not achieving anticipated growth in library and local government support.

General Fund receipts were less than disbursements by \$8,970 indicating that the General Fund is in a deficit spending situation. The Trust Fund balance decreased \$22,975 and the Building Fund balance increased \$14,516 from prior year due to earned interest income.

General Fund Budgeting Highlights

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

During 2006, the Library amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts increased compared to original budgeted receipts due to confirmation of amount expected to be received for Local Government Support. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$379,791 while actual disbursements were \$379,007. The Library kept spending reasonably close to budgeted amounts as demonstrated by the minor reported variances. The result is the decrease in fund balance of \$8,970 for 2006.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2006, the Library did not report capital assets.

Debt

At December 31, 2006, the Library had no outstanding debt.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Current Issues

The challenge for all Libraries is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on library and local government support and future reductions are expected in funding. The Building and Trust fund monies will be utilized more in the future to offset decreasing library and local government support and increasing expenses.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors with a general overview of the Library's finances and to reflect the Library's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Lila L. Stewart, Clerk-Treasurer, Mechanicsburg Public Library, 60 S. Main St., Mechanicsburg, OH 43044.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
December 31, 2006**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$13,616
Investments	563,832
Total Assets	<u>577,448</u>
Net Assets	
Restricted for:	
Capital Projects	333,846
Other Purposes	193,554
Unrestricted	50,048
Total Net Assets	<u>\$577,448</u>

See accompanying notes to the basic financial statements.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General Fund	Trust Fund	Building Fund	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$11,329		\$2,288	\$13,617
Investments	38,719	193,553	331,559	563,831
Total Assets	50,048	193,553	333,847	577,448
Fund Balances				
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	50,048			50,048
Special Revenue Funds		193,553		193,553
Capital Projects Funds			333,847	333,847
Total Fund Balances	\$50,048	\$193,553	\$333,847	\$577,448

See accompanying notes to the basic financial statements.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN
MODIFIED-CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General Fund</u>	<u>Trust Fund</u>	<u>Building Fund</u>	<u>Total</u>
Receipts				
Library and Local Government Support	\$311,660			\$311,660
Patron, Fines and Fees	7,513			7,513
Contributions, Gifts and Donations	15,244			15,244
Earnings on Investments	3,352	\$9,025	\$15,861	28,238
Miscellaneous	268			268
Total Receipts	<u>338,037</u>	<u>9,025</u>	<u>15,861</u>	<u>362,923</u>
Disbursements				
Current:				
Library Services	360,224			360,224
Capital Outlay	18,783		1,345	20,128
Total Disbursements	<u>379,007</u>		<u>1,345</u>	<u>380,352</u>
Excess of Receipts Over (Under) Disbursements	<u>(40,970)</u>	<u>9,025</u>	<u>14,516</u>	<u>(17,429)</u>
Transfers In	32,000			32,000
Transfers Out		<u>(32,000)</u>		<u>(32,000)</u>
Total Other Financing Sources (Uses)	<u>32,000</u>	<u>(32,000)</u>		
Net Change in Fund Balances	(8,970)	(22,975)	14,516	(17,429)
Fund Balances Beginning of Year	<u>59,018</u>	<u>216,528</u>	<u>319,331</u>	<u>594,877</u>
Fund Balances End of Year	<u><u>\$50,048</u></u>	<u><u>\$193,553</u></u>	<u><u>\$333,847</u></u>	<u><u>\$577,448</u></u>

See accompanying notes to the basic financial statements.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Library and Local Government Support	\$268,860	\$300,063	\$311,660	\$11,597
Patron, Fines and Fees	2,588	2,888	7,513	4,625
Contributions, Gifts and Donations	10,309	11,505	15,244	3,739
Earnings on Investments	1,725	1,926	3,352	1,426
Miscellaneous	431	481	268	(213)
Total receipts	<u>283,913</u>	<u>316,863</u>	<u>338,037</u>	<u>21,174</u>
Disbursements				
Current:				
Library Services	308,566	359,791	360,224	(433)
Capital Outlay	10,500	20,000	18,783	1,217
Total Disbursements	<u>319,066</u>	<u>379,791</u>	<u>379,007</u>	<u>784</u>
Excess of Receipts Over (Under) Disbursements	<u>(35,153)</u>	<u>(62,928)</u>	<u>(40,970)</u>	<u>21,958</u>
Other Financing Sources (Uses)				
Other Financing Uses	(500)	(20,000)		(20,000)
Transfers In	32,000	32,000	32,000	
Total Other Financing Sources (Uses)	<u>31,500</u>	<u>12,000</u>	<u>32,000</u>	<u>(20,000)</u>
Net Change in Fund Balance	(3,653)	(50,928)	(8,970)	41,958
Fund Balance Beginning of Year	<u>59,018</u>	<u>59,018</u>	<u>59,018</u>	
Fund Balance End of Year	<u>\$55,365</u>	<u>\$8,090</u>	<u>\$50,048</u>	<u>\$41,958</u>

See accompanying notes to the basic financial statements.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Earnings on Investments	\$2,700	\$2,700	\$9,025	\$6,325
Total receipts	<u>2,700</u>	<u>2,700</u>	<u>9,025</u>	<u>6,325</u>
Other Financing Sources (Uses)				
Transfers Out	<u>(32,000)</u>	<u>(32,000)</u>	<u>(32,000)</u>	
Total Other Financing Sources (Uses)	<u>(32,000)</u>	<u>(32,000)</u>	<u>(32,000)</u>	
Net Change in Fund Balance	(29,300)	(29,300)	(22,975)	6,325
Fund Balance Beginning of Year	<u>216,528</u>	<u>216,528</u>	<u>216,528</u>	
Fund Balance End of Year	<u><u>\$187,228</u></u>	<u><u>\$187,228</u></u>	<u><u>\$193,553</u></u>	<u><u>\$6,325</u></u>

See accompanying notes to the basic financial statements.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. DESCRIPTION OF THE LIBRARY AND REPORTING ENTITY

The Mechanicsburg Public Library, Champaign County, (the Library) was organized as a school district public library in 1948 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the Mechanicsburg Board of Education. Appointments are for seven-year terms and members serve without compensation. Under Ohio statutes, the Library is a body politic and corporate capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. Control and management of the Library is governed by sections 3375.33 to 3375.39 of the Ohio Revised Code with the administration of the day-to-day operations of the Library being the responsibility of the Director and financial accountability being solely that of the Clerk-Treasurer.

The Library is fiscally independent of the Board of Education, although the Board of Education 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 Board of Education must put the levy on the ballot. There is no potential for the Library to provide a financial benefit to or impose a financial burden on the Board of Education.

Under the provisions of Statement No. 14 of the Governmental Accounting Standards Board, "The Financial Reporting Entity," the Library is considered to be a related organization of the Mechanicsburg Exempted Village School District.

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 Mechanicsburg Public Library, Inc. 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. The Library does not have the ability to access a majority of the organization's economic resources nor is the organization significant to the Library; therefore, this organization has been excluded from the reporting entity of the Library.

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

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, 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). 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. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The most significant of the Library's accounting policies are described below.

A. Basis of Presentation

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

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. These statements include the financial activities of the primary government. Governmental activities generally are financed through library and local government support.

The statement of net assets presents the cash balance of the governmental activities of the Library at year end. The statement of activities compares disbursements with program receipts for each of the Library's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Library is responsible. Program receipts include charges paid by the recipient of the program's goods or services and contributions restricted to meeting the operational requirements of a particular program, and receipts of interest earned on revenues 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.

2. Fund Financial Statements

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

B. Fund Accounting

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The Library's funds are governmental.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds

Governmental funds are financed primarily from library and local government support. Monies 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 accounts 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.

Trust Fund – The trust fund accounts for donated monies and earned interest set aside for book purchases and building improvements.

Building Fund - The building and repair fund accounts for monies set aside by the Board of Library Trustees specifically for capital 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 the use 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 expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

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

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 Trustees may appropriate. The estimated receipts may be revised during the year if projected increases or decreases in receipts are identified by the Clerk Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriations were enacted by the Trustees.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Cash and Cash Equivalents

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

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 (contra revenue), respectively.

During 2006, investments were limited to STAR Ohio and nonnegotiable certificates of deposit, which are recorded at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2006.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the general fund during 2006 amounted to \$3,352.

F. 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.

G. 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 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

H. Long-Term Obligations

The Library's modified cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for purchasing books and capital improvements.

J. Fund Balance Reserves

Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

K. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements. The Library had one interfund transaction during the year.

3. BUDGETARY BASIS OF ACCOUNTING

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

4. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the 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.

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.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

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 \$100 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Library will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, none of the Library's bank balance of \$34,143 was 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.

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 either 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.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

As of December 31, 2006, the Library had the following investment:

	Carrying Value	Maturity
Certificate of Deposit	\$ 5,940	< 1 year
STAR Ohio	557,891	< 1 year
	\$563,831	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. 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, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

STAR Ohio carries a rating of AAAm by Standard and Poor's. The Library has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

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 are in the possession of an outside party. 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."

5. LIBRARY AND LOCAL GOVERNMENT SUPPORT

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

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

6. RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2007, the Library contracted for various types of insurance coverage as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Utica National Insurance Group	Commercial Property	\$ 761,472
	Personal Property	43,160
	General Liability	1,000,000
	Commercial Crime	50,000
	Inland Marine	1,116,596
	Vehicle	1,000,000
	Errors and Omissions	1,000,000
	Library Officials	5,000
	Fidelity and Deposit	5,000

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

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

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

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, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLAN (Continued)

For the year ended December 31, 2006, the members of all three plans were required to contribute 9 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2006 was 13.7 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2006 were \$26,665, \$24,119, and \$21,462 respectively; the full amount has been contributed for 2006, 2005, and 2004.

8. POST-EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund post-employment benefits were \$7,698. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

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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*

Mechanicsburg Public Library
Champaign County
60 South Main Street
Mechanicsburg, Ohio 43044

To the Library Board of Trustees:

We have audited the financial statements of the governmental activities and each major fund of the Library as of and for the years ended December 31, 2007 and 2006, which collectively comprise the Library's basic financial statements and have issued our report thereon dated July 15, 2008, wherein, we noted the Library uses a comprehensive accounting basis other than generally accepted accounting principles. 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*.

We also noted the Library uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Library. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

Internal Control Over Financial Reporting (Continued)

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 Government'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 Government's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting as described as item 2007-001.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe that the significant deficiency described above is a material weakness.

We also noted certain internal control matters that we reported to the Library's management in a separate letter dated July 15, 2008.

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 did note certain noncompliance or other matters that we reported to the Library's management in a separate letter dated July 15, 2008.

The Library's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Library's response and, accordingly, we express no opinion on it.

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.



Mary Taylor, CPA
Auditor of State

July 15, 2008

MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006

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

Finding 2007-001

Material Weakness

The Library must present Budget and Actual Statements for the General Fund and all major Special Revenue funds. The budgetary information presented in these statements is used as a comparison between the final budgetary amount and the actual amounts, with an additional column being presented to show the change from original budget to final budget amount.

The Library's annual financial statements, as presented to the Auditor of State, for the General Fund for 2006 were misstated. Receipts and disbursements for the original budgetary amounts were overstated by \$45,197 and \$73,925 respectively. The final budgetary amounts for receipts and disbursements were also overstated by \$12,247 and \$13,200 respectively. Furthermore, \$20,000 in other financing uses was appropriated for the General fund but weren't posted to final budgetary column. Inaccurately reporting this information reduced the ability of the reader to effectively evaluate the budgetary activity of the Library. The audited financial statements have been adjusted to present the accurate original and final budgetary amounts as required. The Library should review its Annual Report for completeness prior to submission to provide additional assurance it contains complete and accurate information.

Officials Response: Each quarter, I will review the budget and actual statement for the General Fund and all major special revenue funds. I am sure this procedure will prevent any inaccuracies in the annual report.



Mary Taylor, CPA
Auditor of State

**MECHANICSBURG PUBLIC LIBRARY
CHAMPAIGN COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 12, 2008**