



Mary Taylor, CPA
Auditor of State

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Middletown Public Library
Butler County
125 South Broad Street
Middletown, Ohio 45044

To the Board of Trustees:

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 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

October 15, 2008

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

This discussion and analysis of the Library's 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 cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Highlights

Key highlights for 2007 are as follows:

Net assets of governmental activities increased by \$16,696 or .3 percent. The fund most affected by increases was the General Fund, which had an increase of \$202,685 in the fund balance. The Capital Improvement Fund had a decrease from the previous year of \$201,397 due to a roof replacement, carpet replacement and remodeling of the Staff area at the Middletown branch. It also included software and hardware upgrades as well as audio visual enhancements.

The Library's general receipts are primarily from the Library and Local Government Support Fund (LLGSF). In 2007, these receipts represent 90 percent of the total cash received for governmental activities during the year. In 2007, LLGSF revenue remained the same at \$5,481,189.

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 cash basis of accounting.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

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 cash basis of accounting. Under this basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2007, using the cash basis accounting. The statement of net assets presents the cash balances of the governmental 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 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 health is improving or deteriorating. When evaluating the Library's financial condition, you should also consider other financial factors as well, such as the condition of the Library's capital assets and physical plant, the extent of the Library's debt obligations, the reliance on non-local financial resources for operations and the possible need for major local revenue sources.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

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

The Government as a Whole

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

Table 1

	Governmental Activities	
	2007	2006
Assets		
Cash and Cash Equivalents	\$5,820,179	\$5,803,483
Total Assets	5,820,179	5,803,483
Net Assets		
Restricted for:		
Capital Outlay	1,360,491	1,561,888
Unrestricted	4,459,688	4,241,595
Total Net Assets	\$5,820,179	\$5,803,483

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

As mentioned previously, net assets of governmental activities increased \$16,696 or .3 percent during 2007. The primary reasons contributing to the almost break even in cash balances are as follows:

- The General Fund balance increased by 202,685
- The Capital Improvement Fund decreased by 201,397

Table 2 reflects the changes in net assets in 2007 and 2006.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

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

	Governmental Activities 2007	Governmental Activities 2006
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$250,967	\$249,343
Operating Grants and Contributions	0	0
Capital Grants and Contributions	0	0
Total Program Receipts	250,967	249,343
General Receipts:		
Library & Local Government Receipts	5,481,189	5,481,189
Unrestricted Gifts & Contributions	16,940	14,529
Restricted Contributions	0	760
Interest Income	332,579	273,297
Miscellaneous	887	19,634
Total General Receipts	5,831,595	5,789,409
Total Receipts	6,082,562	6,038,752
Disbursements:		
Library Services		
Public Service and Programs	2,327,876	2,340,360
Collection Development and Processing	1,633,905	1,586,490
Support Services:		
Facilities Operation and Maintenance	706,552	722,841
Information Services	106,898	91,267
Business Administration	731,933	736,986
Capital Outlay	558,702	272,639
Total Disbursements	6,065,866	5,750,583
Increase (Decrease) in Net Assets	16,696	288,169
Net Assets, Beginning of Year	5,803,483	5,515,314
Net Assets, End of Year	\$5,820,179	\$5,803,483

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

Program receipts represent only 4.1 percent of total receipts. Program receipts are primarily comprised of charges for patron sales and services, such as fines, fees, and coin-operated machine income.

General receipts represent 96 percent of the Library's total receipts, and of this amount, 94 percent is from the Library and Local Government Support Fund. Interest income, rental income, and donations make up the balance of the Library's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Governmental Activities

If you look at the Statement of Activities on page 11, 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 next three 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 local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2007	Net Cost Of Services 2007	Total Cost Of Services 2006	Net Cost Of Services 2006
Library Services:				
Public Service and Programs	\$2,327,876	(\$2,076,909)	\$2,340,360	(\$2,091,017)
Collection Development/Processing	1,633,905	(1,633,905)	1,586,490	(1,586,490)
Support Services:				
Facilities Operation and Maintenance	706,552	(706,552)	722,841	(722,841)
Information Services	106,898	(106,898)	91,267	(91,267)
Business Administration	731,933	(731,933)	736,986	(736,986)
Capital Outlay:	558,702	(558,702)	272,639	(272,639)
Total Expenses	\$6,065,866	(\$5,814,899)	\$5,750,583	(\$5,501,240)

The dependence upon the Local Library Government Support Fund is apparent, as over 90 percent of governmental activities are supported through these general receipts. The total cost of services for Capital Outlay increased from 2006 to 2007 because of roof and carpet replacements at the Middletown branch.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

The Government's Funds

Total governmental funds had receipts of \$6,332,562 and disbursements of \$6,315,866. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased by \$202,685 due to the fact that anticipated expenditures did not happen in the year as expected.

General Fund Budgeting Highlights

The Library's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During 2007, the Government did not amend its General Fund budget.

Actual disbursements were \$5,860,095. The Library's spending was below the budgeted amounts as demonstrated by the reported variances. The result is the increase in fund balance of \$202,685 for 2007.

Current Issues

The challenge for all Governments 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 the Library and Local Government Support Fund. Our newly prepared financial forecast predicts a deficit for 2008 and beyond; therefore, the administration implemented a strategy to delay the deficit. This plan became effective at the end of 2004. We reviewed our sources of revenue and determined that increases were unlikely. We then reviewed the disbursement history of the Library. We have reduced staffing levels through attrition in areas where we felt it would have the least impact on services. We have reduced collection disbursements compared to the original budgeted amounts.

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, and patrons 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 Deborah M. Preston, Clerk-Treasurer, Middletown Public Library, 125 S. Broad Street, Middletown, OH 45044.

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**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,820,179
Total Assets	<u><u>\$5,820,179</u></u>
Net Assets	
Restricted for:	
Capital Projects	1,360,491
Unrestricted	<u>4,459,688</u>
Total Net Assets	<u><u>\$5,820,179</u></u>

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF ACTIVITIES – CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
Cash	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Disbursements	and Sales				
Governmental Activities					
Library Services:					
Public Service and Programs	\$2,327,876	\$250,967		\$(2,076,909)	
Collection Development and Processing	1,633,905			(1,633,905)	
Support Services:					
Facilities Operation and Maintenance	706,552			(706,552)	
Information Services	106,898			(106,898)	
Business Administration	731,933			(731,933)	
Capital Outlay	558,702			(558,702)	
Total Governmental Activities	\$6,065,866	\$250,967	\$0	\$0	(5,814,899)

General Receipts

Library & Local Government Receipts	5,481,189
Unrestricted Gifts and Contributions	16,940
Restricted Contributions	0
Interest Income	332,579
Miscellaneous	887
Total General Receipts	5,831,595

Change in Net Assets 16,696

Net Assets Beginning of Year 5,803,483

Net Assets End of Year **\$5,820,179**

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Library and Local Government Support	\$5,481,189	\$5,481,189	\$5,481,189	-
Patron Fines and Fees	230,000	230,000	234,265	4,265
Services Provided to Others	13,000	13,000	16,702	3,702
Contributions, Gifts and Donations	500	500	1,781	1,281
Earnings on Investments	231,000	231,000	327,956	96,956
Miscellaneous	500	500	887	387
<i>Total Receipts</i>	<u>5,956,189</u>	<u>5,956,189</u>	<u>6,062,780</u>	<u>106,591</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	2,793,315	2,793,315	2,326,876	466,439
Collection Development and Processing	1,927,404	1,927,404	1,633,905	293,499
Support Services:				
Facilities Operation and Maintenance	917,900	917,900	706,552	211,348
Information Services	119,113	119,113	106,898	12,215
Business Administration	869,368	869,368	728,559	140,809
Capital Outlay	395,000	395,000	107,305	287,695
Contingency	100,000	100,000	0	100,000
<i>Total Disbursements</i>	<u>7,122,100</u>	<u>7,122,100</u>	<u>5,610,095</u>	<u>1,512,005</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,165,911)</u>	<u>(1,165,911)</u>	<u>452,685</u>	<u>1,618,596</u>
Other Financing Sources (Uses)				
Transfers Out	(250,000)	(250,000)	(250,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(1,415,911)</u>	<u>(1,415,911)</u>	<u>202,685</u>	<u>1,618,596</u>
<i>Fund Balance Beginning of Year</i>	4,155,578	4,155,578	4,155,578	0
Prior Year Encumbrances Appropriated	218,058	218,058	218,058	0
<i>Fund Balance End of Year</i>	<u>\$2,957,725</u>	<u>\$2,957,725</u>	<u>\$4,576,321</u>	<u>\$1,618,596</u>

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Library & Local Government Support	\$5,481,189			5,481,189
Patron Fines and Fees	234,265			234,265
Services Provided to Others	16,702			16,702
Contributions, Gifts and Donations	1,781		15,159	16,940
Earnings on Investments	327,956		4,623	332,579
Miscellaneous	887			887
<i>Total Receipts</i>	<u>6,062,780</u>	<u>0</u>	<u>19,782</u>	<u>6,082,562</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	2,326,876		1,000	2,327,876
Collection Development and Processing	1,633,905			1,633,905
Support Services:				
Facilities Operation and Maintenance	706,552	451,397		1,157,949
Information Services	106,898			106,898
Business Administration	728,559		3,374	731,933
Capital Outlay	107,305			107,305
<i>Total Disbursements</i>	<u>5,610,095</u>	<u>451,397</u>	<u>4,374</u>	<u>6,065,866</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>452,685</u>	<u>(451,397)</u>	<u>15,408</u>	<u>16,696</u>
Other Financing Sources (Uses)				
Transfers In		250,000		250,000
Transfers Out	(250,000)			(250,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(250,000)</u>	<u>250,000</u>	<u>0</u>	<u>0</u>
				<u>0</u>
<i>Net Change in Fund Balances</i>	202,685	(201,397)	15,408	16,696
<i>Fund Balances Beginning of Year</i>	<u>4,155,578</u>	<u>1,561,888</u>	<u>86,017</u>	<u>5,803,483</u>
<i>Fund Balances End of Year</i>	<u><u>\$4,358,263</u></u>	<u><u>\$1,360,491</u></u>	<u><u>\$101,425</u></u>	<u><u>5,820,179</u></u>

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
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	\$5,481,189	\$5,481,189	\$5,481,189	-
Patron Fines and Fees	230,000	230,000	234,265	4,265
Services Provided to Others	13,000	13,000	16,702	3,702
Contributions, Gifts and Donations	500	500	1,781	1,281
Earnings on Investments	231,000	231,000	327,956	96,956
Miscellaneous	500	500	887	387
<i>Total Receipts</i>	<u>5,956,189</u>	<u>5,956,189</u>	<u>6,062,780</u>	<u>106,591</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	2,793,315	2,793,315	2,326,876	466,439
Collection Development and Processing	1,927,404	1,927,404	1,633,905	293,499
Support Services:				
Facilities Operation and Maintenance	917,900	917,900	706,552	211,348
Information Services	119,113	119,113	106,898	12,215
Business Administration	869,368	869,368	728,559	140,809
Capital Outlay	395,000	395,000	107,305	287,695
Contingency	100,000	100,000	0	100,000
<i>Total Disbursements</i>	<u>7,122,100</u>	<u>7,122,100</u>	<u>5,610,095</u>	<u>1,512,005</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,165,911)</u>	<u>(1,165,911)</u>	<u>452,685</u>	<u>1,618,596</u>
Other Financing Sources (Uses)				
Transfers Out	(250,000)	(250,000)	(250,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(1,415,911)	(1,415,911)	202,685	1,618,596
<i>Fund Balance Beginning of Year</i>	4,155,578	4,155,578	4,155,578	0
Prior Year Encumbrances Appropriated	218,058	218,058	218,058	0
<i>Fund Balance End of Year</i>	<u>\$2,957,725</u>	<u>\$2,957,725</u>	<u>\$4,576,321</u>	<u>\$1,618,596</u>

See accompanying notes to the basic financial statements

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**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 1 – DESCRIPTION OF THE LIBRARY AND REPORTING ENTITY

The Middletown Public Library, Butler County, Ohio (the Library), was organized as a district public library in 1913 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the Middletown City Council. They serve for four-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 Library Director and financial accountability being solely that of the Clerk-Treasurer.

The Library is fiscally independent of the City of Middletown, although the City serves in a ministerial capacity as the taxing district for the Library.

The Friends of the Ohio 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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Library at year end. These statements include the financial activities of the primary government.

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, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Library's general receipts.

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

Governmental funds are financed primarily from library and local government receipts, intergovernmental receipts (e.g. grants), and other non-exchange transactions. 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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Improvement Fund - The Capital Improvement Fund accounts for monies set aside by the Board of Library Trustees specifically for major capital and technology improvements.

The other governmental funds of the Library account for grants and other resources whose use is restricted to a particular purpose.

C. Basis of Accounting

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenues 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.

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

D. Budgetary Process

All funds are legally required to be appropriated. The Appropriation Resolution is the Trustee's authorization to spend resources and sets limits on expenditures plus encumbrances at the level of control selected by the Trustees. The legal level of control has been established at the fund and or major category 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 revenues to be received for the year. These estimated revenues, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated revenues 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 appropriation was adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriation, if needed, was enacted by the Trustees.

The Appropriation 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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

Investments in nonnegotiable certificates of deposit are considered part of the cash management pool and are presented on the financial statements as cash equivalents.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the General fund during 2007 totaled \$327,956.

F. Accumulated Leave

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

G. Employer Contributions to Cost-Sharing Pension Plans

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

H. 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 permanent funds.

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

I. 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 (and after nonoperating receipts/disbursements in proprietary funds). Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 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, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis are outstanding year end encumbrances which are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$160,197 for the General fund and \$59,246 (budgetary basis) for all other funds.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Library into three categories.

Active deposits are public deposits necessary to meet current demands on the Library treasury. Such 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 Library has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by 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.

Interim monies may be deposited or invested in the following securities:

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;

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;

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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;

Bonds and other obligations of the State of Ohio or Ohio local governments;

Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

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;

The State Treasurer's investment pool (STAR Ohio).

Protection of the Library's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Library, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end, the Library had \$1,000 in un-deposited cash on hand, which is included on the balance sheet of the Library as part of "Equity in Pooled Cash and Cash Equivalents."

At year end, the carrying amount of the Library's deposits was \$5,820,179 and the bank balance was \$5,883,270. Of the bank balance \$200,000 was covered by federal depository insurance and the remaining amount was covered by collateral held by third party trustees pursuant to Section 135.181 of the Revised Code, in collateralized pools securing all public funds on deposit with the specific depository institutions. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Library to a successful claim by the FDIC.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

(Continued)

NOTE 5 – 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 with several companies for various types of insurance coverage as follows:

<u>Type of Coverage</u>	<u>Coverage</u>
Commercial Property	\$7,736,928
General Liability	1,000,000
Commercial Umbrella	3,000,000
Inland Marine	9,650,991
Vehicle	500,000
Library Officials	50,000
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.

NOTE 6 – LIBRARY AND LOCAL GOVERNMENT SUPPORT FUND

The primary source of revenue for Ohio Public Libraries is the State Library and Local Government Support Fund (LLGSF). The LLGSF is allocated to each county based on the county's prior intangible tax revenues and its population. The County Budget Commission allocates these funds to the Library based on its census of population for which the library services. The Budget Commission cannot reduce its allocation of these funds based on any additional revenues the Library receives.

NOTE 7 – DEFINED BENEFIT PENSION PLAN

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year).

Under the Member Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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) 222-5601.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans.

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 Library's required contributions for pension obligations to the Traditional and Combined plans for the years ended December 31, 2007, 2006, and 2005 were \$369,528, \$356,058, and \$350,919 respectively; the full amount has been contributed for 2006, 2005, and 2004.

NOTE 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 survivors recipients is available. Members of the Member-Directed Plan do not qualify for postretirement health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-employment health care. In 2007, the library contributed at a rate of 13.85% of covered payroll. The portion of employer contributions, for all employers, allocated to health care was 5% from January 1 through June, 30, 2007 and 6% from July 1 through December 31, 2007.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 8 – POST EMPLOYMENT BENEFITS (Continued)

Summary of Assumptions:

Actuarial Review-The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2006.

Funding Method-The individual entry age actuarial cost method of valuations is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

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

Investment Return-The investment assumption rate for 2006 was 6.5%.

Active Employee Total Payroll-An annual increase of 4%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. In addition, annual pay increases over and above the 4% base increase, were assumed to range from 0.50% to 6.3%.

Health Care-Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50% to 5.00% for the next 8 years. In subsequent years, (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEB is advance-funded on an actuarially determined basis. The following disclosures are required:

The Traditional Pension and Combined Plans had 374,979 active contributing participants as of December 31, 2007. The number of active contributing participants for both plans used in the December 31, 2006, actuarial valuations was 362,130.

The rates stated above are the contractually required contribution rates for OPERS. Contributions made by the Library to fund post employment benefits in 2007 were \$146,853.

The amount of \$12 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2006.

Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2006, reported the actuarially accrued liability and the unfunded actuarially accrued liability for OPEB at \$30.7 billion and \$18.7 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. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to health care plan.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 9 - INTERFUND TRANSFERS

The General Fund transferred \$250,000 to the Capital Improvement Fund for the purchase and maintenance of various items throughout the Library.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Middletown Public Library
Butler County
125 South Broad Street
Middletown, Ohio 45044

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Middletown Public Library, Butler County, Ohio (the Library), as of and for the year ended December 31, 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. We believe our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Middletown Public Library, Butler County, Ohio, as of December 31, 2006, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 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

October 15, 2008

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

This discussion and analysis of the Library's 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 cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Highlights

Key highlights for 2006 are as follows:

Net assets of governmental activities increased by \$288,169 or 5.0 percent. Expenses relative to the completion of carpet installation at the end of the year pushed back encumbrances to the end of the year thus creating more outstanding encumbrances at the year end. The funds most affected by the increase in cash and cash equivalents were the Capital Improvement Fund and General Fund.

The Library's general receipts are primarily from the Library and Local Government Support Fund (LLGSF). In 2006, these receipts represent 91 percent of the total cash received for governmental activities during the year. In 2006, LLGSF revenue remained the same at \$5,481,189.

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 cash basis of accounting.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

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 cash basis of accounting. Under this basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2006, using the cash basis accounting. The statement of net assets presents the cash balances of the governmental 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 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 health is improving or deteriorating. When evaluating the Library's financial condition, you should also consider other financial factors as well, such as the condition of the Library's capital assets and physical plant, the extent of the Library's debt obligations, the reliance on non-local financial resources for operations and the possible need for major local revenue sources.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

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

The Government as a Whole

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

(Table 1)

Net Assets

	Governmental Activities	
	2006	2005
Assets		
Cash and Cash Equivalents	\$5,803,483	\$5,515,314
Total Assets	5,803,483	5,515,314
Net Assets		
Restricted for:		
Capital Outlay	1,561,888	1,479,664
Unrestricted	4,241,595	4,035,650
Total Net Assets	\$5,803,483	\$5,515,314

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

As mentioned previously, net assets of governmental activities increased \$288,169 or 5 percent during 2006. The primary reasons contributing to the increases in cash balances are as follows:

- Outstanding encumbrances at the year end for new carpet at the Middletown branch.
- Health benefit costs remained neutral.

Table 2 reflects the changes in net assets in 2006 and 2005.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

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

	Governmental Activities 2006	Governmental Activities 2005
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$249,343	\$247,603
Operating Grants and Contributions	0	0
Capital Grants and Contributions	0	0
Total Program Receipts	249,343	247,603
General Receipts:		
Library & Local Government Receipts	5,481,189	5,481,189
Unrestricted Gifts and Contributions	14,529	13,453
Restricted Contributions	760	
Interest Income	273,297	156,331
Miscellaneous	19,634	20,006
Total General Receipts	5,789,409	5,670,979
Total Receipts	6,038,752	5,918,582
Disbursements:		
Library Services		
Public Service and Programs	2,340,360	2,270,181
Collection Development and Processing	1,586,490	1,524,028
Support Services:		
Facilities Operation and Maintenance	722,841	686,781
Information Services	91,267	115,376
Business Administration	736,986	684,959
Capital Outlay	272,639	716,387
Total Disbursements	5,750,583	5,997,712
Increase (Decrease) in Net Assets	(288,169)	(79,130)
Net Assets, Beginning of Year	5,515,314	5,594,444
Net Assets, End of Year	\$5,803,483	\$5,515,314

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

Program receipts represent only 4.1 percent of total receipts. Program receipts are primarily comprised of charges for patron sales and services, such as fines, fees, and coin-operated machine income.

General receipts represent 96 percent of the Library's total receipts, and of this amount, 95 percent is from the Library and Local Government Support Fund. Interest income, rental income, and donations make up the balance of the Library's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Governmental Activities

If you look at the Statement of Activities on page 11, 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 next three 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 local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2006	Net Cost Of Services 2006	Total Cost Of Services 2005	Net Cost Of Services 2005
Library Services:				
Public Service and Programs	\$2,340,360	(\$2,091,017)	\$2,270,181	(\$2,022,578)
Collection Development/Processing	1,586,490	(1,586,490)	1,524,028	(1,524,028)
Support Services:				
Facilities Operation and Maintenance	722,841	(722,841)	686,781	(686,781)
Information Services	91,267	(91,267)	115,376	(115,376)
Business Administration	736,986	(736,986)	684,959	(684,959)
Capital Outlay:	272,639	(272,639)	716,387	(716,387)
Total Expenses	<u>\$5,750,583</u>	<u>(\$5,501,240)</u>	<u>\$5,997,712</u>	<u>(\$5,750,109)</u>

The dependence upon the Local Library Government Support Fund is apparent, as over 95 percent of governmental activities are supported through these general receipts.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

The Government's Funds

Total governmental funds had receipts of \$6,288,752 and disbursements of \$6,000,583. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased by \$196,652. This increase will be off set later by the fact that there is \$218,058 in outstanding encumbrances due to the carpet replacement project which began at the end of the fiscal year.

The Capital Improvement Fund increased by \$82,224 due to the fact that anticipated expenditures did not happen in the year as projected. The Capital Improvement Fund had more expenditures in 2005 than 2006 due to an addition to the West Chester branch and an upgrade to the HVAC system at the Middletown branch.

General Fund Budgeting Highlights

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

Actual disbursements for 2006 were \$6,000,583. The Library's spending was below the budgeted amounts as demonstrated by the reported variances. The result is the increase in fund balance of \$196,652 for 2006.

Current Issues

The challenge for all Governments 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 the Library and Local Government Support Fund. Our newly prepared financial forecast predicts a deficit for 2007; therefore, the administration implemented a strategy to delay the deficit. This plan became effective at the end of 2004. We reviewed our sources of revenue and determined that increases were unlikely. We then reviewed the disbursement history of the Library. We have reduced staffing levels through attrition in areas where we felt it would have the least impact on services. We have reduced collection disbursements compared to the original budgeted amounts.

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, and patrons 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 Deborah M. Preston, Clerk-Treasurer, Middletown Public Library, 125 S. Broad Street, Middletown, OH 45044.

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**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2006**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$5,803,483</u>
Total Assets	<u><u>5,803,483</u></u>
Net Assets	
Restricted for:	
Capital Projects	1,561,888
Unrestricted	<u>4,241,595</u>
Total Net Assets	<u><u>\$5,803,483</u></u>

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF ACTIVITIES – CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
Cash	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Disbursements					
Governmental Activities					
Library Services:					
Public Service and Programs	\$2,340,360	\$249,343		\$(2,091,017)	
Collection Development and Processing	1,586,490			(1,586,490)	
Support Services:					
Facilities Operation and Maintenance	722,841			(722,841)	
Information Services	91,267			(91,267)	
Business Administration	736,986			(736,986)	
Capital Outlay	272,639			(272,639)	
Total Governmental Activities	\$5,750,583	\$249,343	\$0	\$0	(5,501,240)

General Receipts

Library & Local Government Receipts	5,481,189
Unrestricted Gifts and Contributions	14,529
Restricted Contributions	760
Interest Income	273,297
Miscellaneous	19,634
Total General Receipts	5,789,409
 Change in Net Assets	 288,169
 Net Assets Beginning of Year	 5,515,314
 Net Assets End of Year	 \$5,803,483

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General Fund	Capital Imp. Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,155,578	\$1,561,888	\$86,017	\$5,803,483
<i>Total Assets</i>	4,155,578	1,561,888	86,017	5,803,483
Fund Balances				
Reserved:				
Reserved for Encumbrances	218,058	191,708	0	409,766
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	3,937,520			3,937,520
Other Governmental Funds			86,017	86,017
Capital Improvement Fund		1,370,180		1,370,180
<i>Total Fund Balances</i>	\$4,155,578	\$1,561,888	\$86,017	\$5,803,483

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

	General Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Library & Local Government Support	\$5,481,189			\$5,481,189
Patron Fines and Fees	229,040			229,040
Services Provided to Others	20,303			20,303
Contributions, Gifts and Donations	3,683		11,606	15,289
Earnings on Investments	268,592		4,705	273,297
Miscellaneous	19,634			19,634
<i>Total Receipts</i>	<u>6,022,441</u>	<u>0</u>	<u>16,311</u>	<u>6,038,752</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	2,340,360			2,340,360
Collection Development and Processing	1,586,490			1,586,490
Support Services:				
Facilities Operation and Maintenance	722,841			722,841
Information Services	91,267			91,267
Business Administration	729,968		7,018	736,986
Capital Outlay	104,863	167,776		272,639
<i>Total Disbursements</i>	<u>5,575,789</u>	<u>167,776</u>	<u>7,018</u>	<u>5,750,583</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>446,652</u>	<u>(167,776)</u>	<u>9,293</u>	<u>288,169</u>
Other Financing Sources (Uses)				
Transfers In		250,000		250,000
Transfers Out	(250,000)			(250,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(250,000)</u>	<u>250,000</u>	<u>0</u>	<u>0</u>
				0
<i>Net Change in Fund Balances</i>	196,652	82,224	9,293	288,169
<i>Fund Balances Beginning of Year</i>	<u>3,958,926</u>	<u>1,479,664</u>	<u>76,724</u>	<u>5,515,314</u>
<i>Fund Balances End of Year</i>	<u><u>\$4,155,578</u></u>	<u><u>\$1,561,888</u></u>	<u><u>\$86,017</u></u>	<u><u>5,803,483</u></u>

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Library and Local Government Support	5,364,000	5,364,000	5,481,189	117,189
Patron Fines and Fees	230,000	230,000	229,040	(960)
Services Provided to Others	13,000	13,000	20,303	7,303
Contributions, Gifts and Donations	500	500	3,683	3,183
Earnings on Investments	185,000	185,000	268,592	83,592
Miscellaneous	500	500	19,634	19,134
<i>Total Receipts</i>	<u>5,793,000</u>	<u>5,793,000</u>	<u>6,022,441</u>	<u>229,441</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	2,675,653	2,675,653	2,340,360	335,293
Collection Development and Processing	1,892,291	1,892,291	1,586,490	305,801
Support Services:				
Facilities Operation and Maintenance	918,500	918,500	722,841	195,659
Information Services	115,671	115,671	91,267	24,404
Business Administration	819,555	819,555	729,968	89,587
Capital Outlay	396,500	396,500	104,863	291,637
Contingency	100,000	100,000	0	100,000
<i>Total Disbursements</i>	<u>6,918,170</u>	<u>6,918,170</u>	<u>5,575,789</u>	<u>1,342,381</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,125,170)</u>	<u>(1,125,170)</u>	<u>446,652</u>	<u>1,571,822</u>
Other Financing Sources (Uses)				
Transfers Out	(250,000)	(250,000)	(250,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(1,375,170)	(1,375,170)	196,652	1,571,822
<i>Fund Balance Beginning of Year</i>	3,958,926	3,958,926	3,958,926	0
Prior Year Encumbrances Appropriated	249,426	249,426	249,426	0
<i>Fund Balance End of Year</i>	<u>\$2,833,182</u>	<u>\$2,833,182</u>	<u>\$4,405,004</u>	<u>\$1,571,822</u>

See accompanying notes to the basic financial statements

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**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 1 – DESCRIPTION OF THE LIBRARY AND REPORTING ENTITY

The Middletown Public Library, Butler County, Ohio (the Library), was organized as a district public library in 1913 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the Middletown City Council. They serve for four-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 Library Director and financial accountability being solely that of the Clerk-Treasurer.

The Library is fiscally independent of the City of Middletown, although the City serves in a ministerial capacity as the taxing district for the Library.

The Friends of the Ohio 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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Library at year end. These statements include the financial activities of the primary government.

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, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Library's general receipts.

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

Governmental funds are financed primarily from library and local government receipts, intergovernmental receipts (e.g. grants), and other non-exchange transactions. 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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Improvement Fund - The Capital Improvement Fund accounts for monies set aside by the Board of Library Trustees specifically for major capital and technology improvements.

The other governmental funds of the Library account for grants and other resources whose use is restricted to a particular purpose.

C. Basis of Accounting

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenues 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.

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

D. Budgetary Process

All funds are legally required to be appropriated. The Appropriation Resolution is the Trustee's authorization to spend resources and sets limits on expenditures plus encumbrances at the level of control selected by the Trustees. The legal level of control has been established at the fund and or major category 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 revenues to be received for the year. These estimated revenues, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated revenues 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 appropriation was adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriation, if needed, was enacted by the Trustees.

The Appropriation 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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

Investments in nonnegotiable certificates of deposit are considered part of the cash management pool and are presented on the financial statements as cash equivalents.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the general fund during 2006 totaled \$268,592.

F. Accumulated Leave

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

G. Employer Contributions to Cost-Sharing Pension Plans

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

H. 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 permanent funds.

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

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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 (and after nonoperating receipts/disbursements in proprietary funds). Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

NOTE 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, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis are outstanding year end encumbrances which are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$218,058 for the general fund and \$191,708 (budgetary basis) for all other funds.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Library into three categories.

Active deposits are public deposits necessary to meet current demands on the Library treasury. Such 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 Library has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by 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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Interim monies may be deposited or invested in the following securities:

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;

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;

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;

Bonds and other obligations of the State of Ohio or Ohio local governments;

Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

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;

The State Treasurer's investment pool (STAR Ohio).

Protection of the Library's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Library, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

At year end, the Library had \$1,000 in un-deposited cash on hand, which is included on the balance sheet of the Library as part of "Equity in Pooled Cash and Cash Equivalents."

At year end, the carrying amount of the Library's deposits was \$5,803,483 and the bank balance was \$5,931,282. Of the bank balance \$200,000 was covered by federal depository insurance and the remaining amount was covered by collateral held by third party trustees pursuant to Section 135.181 of the Revised Code, in collateralized pools securing all public funds on deposit with the specific depository institutions. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Library to a successful claim by the FDIC.

NOTE 5 – 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 2006, the Library contracted with several companies for various types of insurance coverage as follows:

<u>Type of Coverage</u>	<u>Coverage</u>
Commercial Property	\$7,736,928
General Liability	1,000,000
Commercial Umbrella	3,000,000
Inland Marine	9,650,991
Vehicle	500,000
Library Officials	50,000
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.

NOTE 6 – LIBRARY AND LOCAL GOVERNMENT SUPPORT FUND

The primary source of revenue for Ohio Public Libraries is the State Library and Local Government Support Fund (LLGSF). The LLGSF is allocated to each county based on the county's prior intangible of tax revenues and its population. The County Budget Commission allocates these funds to the Library based on its census of population for which the library services. The Budget Commission cannot reduce its allocation of these funds based on any additional revenues the Library receives.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION PLAN

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year).

Under the Member Directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by 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) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans were required to contribute 9.0 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2006 was 13.70 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 2004 were \$356,058, \$350,919, and \$333,532 respectively; the full amount has been contributed for 2006, 2005, and 2004.

NOTE 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 2006 local government employer contribution rate was 13.70 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 8 – POST EMPLOYMENT BENEFITS (Continued)

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 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 premiums were assumed to increase .50 and 5.00 percent annually for the next eight years and 4.50 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 369,214. Actual employer contributions for 2006 which were used to fund post employment benefits were \$116,965. 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 \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

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

NOTE 9 - INTERFUND TRANSFERS

The General Fund transferred \$250,000 to the Capital Improvement fund for the purchase and maintenance of various items throughout the Library.

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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*

Middletown Public Library
Butler County
125 South Broad Street
Middletown, Ohio 45044

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Middletown Public Library, Butler County, Ohio (the Library), as of and for the years ended December 31, 2007 and December 31, 2006, which collectively comprise the Library's basic financial statements and have issued our report thereon dated October 15, 2008. 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 opinions 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.

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

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

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

Our consideration of 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. However, of the significant deficiencies described above, we believe finding number 2007-001 is also a material weakness.

Compliance and Other Matters

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

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 15, 2008

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Material Weakness

Ohio Administrative Code Section 117-2-01 (D) states, in part, that when designing the public office's system of internal control and the specific control activities, management should consider ensuring that all transactions are properly authorized in accordance with management's policies, ensuring that accounting records are properly designed, and verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The Library lacked management oversight in the proper presentation and disclosure of General Fund budget versus actual receipts and disbursements. This lack of oversight is illustrated by the following:

- In 2007, total budgeted receipts were overstated by \$255,850 and total budgeted disbursements were overstated by \$1,081,766.
- In 2007, the budgeted and actual beginning fund balance was overstated by \$1,647,906 and the prior year encumbrances appropriated were overstated by \$191,708.
- In 2007, total actual receipts were overstated by \$269,782 and total actual disbursements were overstated by \$455,771.
- In 2006, total budgeted receipts were overstated by \$373,039 and total budgeted disbursements were overstated by \$250,590.
- In 2006, the budgeted and actual beginning fund balances was overstated by \$1,556,388 and the prior year encumbrances appropriated were overstated by \$134,952.
- In 2006, total actual receipts were overstated by \$266,311 and total actual disbursements were overstated by \$174,794.

These overstatements are the result of the Clerk accidentally including the budget and actual amounts for all the governmental funds and not just the General Fund. Audit adjustments were made to the accompanying financial statements for the above items. All other financial statements were materially stated.

Failure to properly present and disclose budget versus actual receipts and disbursements can result in inaccurate and misleading financial statements. We recommend that receipts and disbursements be properly presented and disclosed. All financial statements should be reviewed for accuracy. To improve accountability, we recommend that the Library use due care in presenting and disclosing financial statements.

Officials' Response:

The administrative oversight of including all funds vs. the general fund was presented on only one statement of the year end financial report. The auditor asserts that this administrative error affects more than one statement which is untrue. The Fiscal officer made the correction to the one page and presented it to the auditor for insertion to the audit report. The auditor acknowledges that all the other reports are accurate and materially stated.

**FINDING NUMBER 2007-001
(Continued)**

Auditor of State's Conclusion:

The errors above are in relation strictly to the Statement of Receipts, Disbursements and Changes in Fund Balances, Budget and Actual Budget Basis-General Fund for the Year Ended December 31, 2007 and the Statement of Receipts, Disbursements and Changes in Fund Balances, Budget and Actual Budget Basis-General Fund for the Year Ended December 31, 2006 presented in this report. The Clerk originally included the budget and actual amounts for all the governmental funds and not just the General Fund. The General Fund's budget and actual amounts are the only amounts required to be presented by the Library per accounting standards. The Clerk made the above stated corrections to both of the statements listed.



Mary Taylor, CPA
Auditor of State

MIDDLETOWN PUBLIC LIBRARY

BUTLER 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
NOVEMBER 6, 2008**