



Mary Taylor, CPA
Auditor of State

**MUSKINGUM COUNTY LIBRARY SYSTEM
MUSKINGUM COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Muskingum County Library System, Muskingum County, Ohio (the Library), as of and for the years ended December 31, 2006 and 2005, 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 1, 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 Muskingum County Library System, Muskingum County, Ohio, as of December 31, 2006 and 2005, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2007, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

July 19, 2007

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005
Unaudited

The discussion and analysis of the Muskingum County Library System's financial performance provides an overview of the Library's financial activities for the years ended December 31, 2006 and 2005, within the limitations of the Board's cash basis of accounting. The intent of this discussion and analysis is to look at the Library's financial performance as a whole.

Financial Highlights

Key financial highlights for 2006 are as follows:

- General Receipts accounted for \$3,397,694 or 96 percent of all receipts. Program receipts in the form of charges for services, operating grants and contributions accounted for \$134,103 or 4 percent of total receipts.
- The Library had \$3,514,797 in disbursements relating to governmental activities; only \$134,103 of these disbursements were offset by program specific charges for services, operating grants or contributions.

Key financial highlights for 2005 are as follows:

- Net assets increased \$163,153 in 2005.
- General Receipts accounted for \$3,319,564 or 96 percent of all receipts. Program receipts in the form of charges for services, operating grants and contributions accounted for \$138,925 or over 4 percent of total receipts.
- The Library had \$3,295,336 in disbursements relating to governmental activities; only \$138,925 of these were offset by program specific charges for services, operating grants or contributions.

Using this Annual Financial Report

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

The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis provide information about the activities of the Library as a whole, presenting an aggregate view of the Board's finances. Governmental financial statements provide the next level of detail. Governmental financial statements report the Library's most significant funds individually and the Library's non-major funds in a single column. The Library's major funds are the General Fund, Building & Repair Fund and the Automation Fund.

Reporting the Library as a Whole

The Statement of Net Assets – Cash Basis and the Statement of Activities – Cash Basis reflect how the Library did financially during 2006 and 2005. These two statements report the Library's net cash assets and changes in those cash assets. The change in net cash assets is important because it tells the reader whether the financial position of the Library as a whole has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. These factors must be considered when assessing the overall financial health of the Library.

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005
Unaudited

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

Reporting the Library's Governmental Financial Statements

Governmental Financial Statements

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

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

The Library as a Whole

Table 1 provides a summary of the Library's net cash assets for 2006 compared to 2005 and 2005 as compared to 2004.

Table 1
Net Assets – Cash Basis

	Governmental Activities		
	2006	2005	2004
Assets			
Equity in Pooled Cash and Cash Equivalents	<u>\$4,825,719</u>	<u>\$4,808,719</u>	<u>\$4,645,565</u>
Total Assets	<u>\$4,825,719</u>	<u>\$4,808,719</u>	<u>\$4,645,565</u>
Net Assets			
Restricted	\$4,245,413	\$3,899,501	\$3,981,638
Unrestricted	<u>580,306</u>	<u>909,218</u>	<u>663,927</u>
Total Net Assets	<u>\$4,825,719</u>	<u>\$4,808,719</u>	<u>\$4,645,565</u>

In 2006, total assets increased moderately \$17,000 or less than .5 percent. This increase is in total assets is much lower than previous years and can be attributed to the continued frozen status of the LLGSF, increasing retirement and health care costs and the overall increased pressure on the library's budget to do more with less.

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005
Unaudited

In 2005, total assets increased \$163,153 or approximately 3.5 percent over 2004. This increase can be attributed to several factors. State funding remained frozen and the Board adopted a conservative view on expenses. The Board also continued to hold open 2 part time positions due to increased concerns regarding library funding.

Table 2 shows the changes in net assets for the years ended December 31, 2006, December 31, 2005 and December 31, 2004.

Table 2
Changes in Net Assets

	Governmental Activities		
	2006	2005	2004
Receipts:			
Program Cash Receipts			
Charges for Services	\$117,762	\$113,172	\$106,685
Operating Grants & Contributions	16,341	25,753	4,294
Total Program Cash Receipts	134,103	138,925	110,979
General Receipts			
Government Grants-in-Aid, LLGSF	3,147,987	3,147,987	3,130,766
Interest	231,401	156,088	93,148
Rental Income	7,800	7,200	7,200
Miscellaneous Receipts	10,506	8,289	6,019
Total General Receipts	3,397,694	3,319,564	3,237,133
Total Receipts	3,531,797	3,458,489	3,348,112
Disbursements:			
Public Services			
General Public Services	2,101,312	2,041,766	1,950,798
Purchased & Contracted Services	471,965	438,858	452,990
Library Materials & Information	616,505	624,378	587,021
Capital Outlay	325,015	190,334	132,376
Total Disbursements	3,514,797	3,295,336	3,123,185
Change in Net Assets	\$17,000	\$163,153	\$224,927

During fiscal year 2006, program receipts show a slight decrease relevant to 2005. Charges for services can be seen to be increasing in 2006 and 2005 when compared to 2004 mainly because of the use of Unique Management Services for collection of overdue fines and fees.

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005
Unaudited

In 2006, general receipts represented 96 percent of the Library's overall receipts, in 2005 general receipts represented 96 percent of the Library's total receipts. General receipts in both 2006 and 2005 were made up almost entirely of the Library and Local Government Support Fund (LLGSF) monies. Since these monies are provided by the State, it can be seen how any decreases in this funding source have a substantial impact on the services the Library can provide.

Total disbursements increased by over 6.5 percent in 2006 from 2005. This can be attributed to several factors. The first of which is major renovations at the New Concord Branch. This project included roof replacement and interior renovations. Costs of employee retirement also increased in 2006 over 2005. The Library also made a commitment to increase database resources available to library patrons. This increase in database access attributed to increases in library materials in 2005 over 2004.

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

Table 3
Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006
Public Services		
General Public Services	\$2,101,312	\$1,967,209
Purchased & Contracted Services	471,965	471,965
Library Materials & Information	616,505	616,505
Capital Outlay	325,015	325,015
Total Disbursements	\$3,514,797	\$3,380,694

	Total Cost of Services 2005	Net Cost of Services 2005
Public Services		
General Public Services	\$2,041,766	\$1,902,841
Purchased & Contracted Services	438,858	438,858
Library Materials & Information	624,378	624,378
Capital Outlay	190,334	190,334
Total Disbursements	\$3,295,336	\$3,156,411

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005
Unaudited

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Public Services		
General Public Services	\$1,950,798	\$1,839,819
Purchased & Contracted Services	452,990	452,990
Library Materials & Information	587,021	587,021
Capital Outlay	<u>132,376</u>	<u>132,376</u>
Total Disbursements	<u><u>\$3,123,185</u></u>	<u><u>\$3,012,206</u></u>

Over 95 percent of the total costs of Library operations are derived from general receipts and as stated previously, this consists of State funding through the Library and Local Government Support Fund.

Governmental Fund Financial Statements

The Library's governmental fund financial statements are accounted for using the cash basis of accounting. The Library's major governmental funds are the General Fund, the Building and Repair Fund and the Automation Fund. A review of these funds reflects a decrease in the fund balance of the General Fund of \$328,912, an increase of \$355,974 in the Building and Repair Fund, and a decrease of \$17,157 in the Automation Fund for 2006. The larger changes in fund balance in both the General Fund and Building and Repair Fund are due to a transfer made at year end from the General Fund to the Building and Repair Fund. The Automation Fund decrease reflects the increase in disbursements from that fund due to the fairly stagnant LLGSF fund and the Board's increasing reliance on this fund to keep up with automation.

In comparison, in 2005 the Building and Repair Fund and Automation Fund reflected a decrease of \$51,161 and \$34,554 respectively. The General Fund reflects an increase of \$250,005. Again the relatively small changes in fund balance in the Building and Repair Fund and the Automation Fund reflects the increase in disbursements from this fund due to the fairly stagnant LLGSF fund and the Board's increasing reliance on the Automation Fund.

General Fund Budgetary Highlights

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

During the course of both 2006 and 2005, the Library amended both its appropriations and estimated receipts. The budgetary statement reflects both the original and final amounts appropriated.

Economic Factors

Funding from the State of Ohio for the Library and Local Government Support Fund has been stagnant in 2006 and 2005 and will continue to be flat for the first half of 2007. In both 2006 and 2005 the Library remained closed on Sunday afternoons and continued to not fill a part time position. The Library has decreased disbursements in many areas of the budget and moved disbursements to both the Building and Repair Fund and the Automation Fund as need dictated.

Muskingum County Library System
Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005
Unaudited

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

Request for Information

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

Muskingum County Library System, Muskingum County

Statement of Net Assets - Cash Basis

December 31, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,825,719</u>
<i>Total Assets</i>	<u><u>\$4,825,719</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$4,190,319
Other Purposes	55,094
Unrestricted	<u>580,306</u>
<i>Total Net Assets</i>	<u><u>\$4,825,719</u></u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum 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 Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Public Services				
General Public Services	\$2,101,312	\$117,762	\$16,341	(\$1,967,209)
Purchased and Contracted Services	471,965			(471,965)
Library Materials and Information	616,505			(616,505)
Capital Outlay	325,015			(325,015)
<i>Total Governmental Activities</i>	<u>\$3,514,797</u>	<u>\$117,762</u>	<u>\$16,341</u>	<u>(3,380,694)</u>
		General Receipts		
		Government Grants In Aid - LLGSF		3,147,987
		Interest		231,401
		Rental Income		7,800
		Miscellaneous		10,506
		<i>Total General Receipts</i>		<u>3,397,694</u>
		Total General Receipts, Transfers and Advances		<u>3,397,694</u>
		Change in Net Assets		17,000
		<i>Net Assets Beginning of Year</i>		<u>4,808,719</u>
		<i>Net Assets End of Year</i>		<u>\$4,825,719</u>

See accompanying notes to the basic financial statements

Statement of Cash Basis Assets and Cash Basis Fund Balances
 Governmental Funds
 December 31, 2006

	General	Building & Repair Fund	Automation Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$580,306	\$3,069,866	\$1,028,482	\$147,065	\$4,825,719
<i>Total Assets</i>	<u>\$580,306</u>	<u>\$3,069,866</u>	<u>\$1,028,482</u>	<u>\$147,065</u>	<u>\$4,825,719</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	\$155,306	\$7,219	\$5,880		\$168,405
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	425,000				425,000
Special Revenue Funds				\$55,094	55,094
Capital Projects Funds		3,062,647	1,022,602	91,971	4,177,220
<i>Total Fund Balances</i>	<u>\$580,306</u>	<u>\$3,069,866</u>	<u>\$1,028,482</u>	<u>\$147,065</u>	<u>\$4,825,719</u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Building & Repair Fund	Automation Fund	Other Governmental Funds	Total Governmental Funds
Receipts					
Intergovernmental	\$3,147,987				\$3,147,987
Patron Fines and Fees	117,762				117,762
Contributions, Gifts and Donations	16,341				16,341
Earnings on Investments	58,602	\$119,947	\$45,757	\$7,095	231,401
Rental Income	7,800				7,800
Miscellaneous	10,506				10,506
<i>Total Receipts</i>	<u>3,358,998</u>	<u>119,947</u>	<u>45,757</u>	<u>7,095</u>	<u>3,531,797</u>
Disbursements					
Current:					
Public Services:					
General Public Services	2,099,233		2,079		2,101,312
Purchased and Contracted Services	427,487	37,197	7,281		471,965
Library & Materials Information	616,505				616,505
Capital Outlay	27,880	243,581	53,554		325,015
<i>Total Disbursements</i>	<u>3,171,105</u>	<u>280,778</u>	<u>62,914</u>	<u>0</u>	<u>3,514,797</u>
<i>Excess of Cash Receipts Over/(Under) Cash Disbursements</i>	<u>187,893</u>	<u>(160,831)</u>	<u>(17,157)</u>	<u>7,095</u>	<u>17,000</u>
Other Financing Sources (Uses)					
Transfers In		516,805			516,805
Transfers Out	(516,805)				(516,805)
<i>Total Other Financing Sources (Uses)</i>	<u>(516,805)</u>	<u>516,805</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(328,912)</u>	<u>355,974</u>	<u>(17,157)</u>	<u>7,095</u>	<u>17,000</u>
<i>Fund Balances Beginning of Year</i>	<u>909,218</u>	<u>2,713,892</u>	<u>1,045,639</u>	<u>139,970</u>	<u>4,808,719</u>
<i>Fund Balances End of Year</i>	<u>\$580,306</u>	<u>\$3,069,866</u>	<u>\$1,028,482</u>	<u>\$147,065</u>	<u>\$4,825,719</u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Receipts, Disbursements and Changes
In Cash Basis Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	(Optional)
	Original	Final		Variance with Final Budget Positive (Negative)
Receipts				
Intergovernmental	\$3,147,987	\$3,147,987	\$3,147,987	\$0
Patron Fines and Fees	105,600	118,200	117,762	(438)
Services Provided to Others	7,200	7,800	7,800	0
Contributions, Gifts and Donations	13,000	16,250	16,341	91
Earnings on Investments	32,000	57,500	58,602	1,102
Miscellaneous	4,000	10,000	10,506	506
<i>Total Receipts</i>	<u>3,309,787</u>	<u>3,357,737</u>	<u>3,358,998</u>	<u>1,261</u>
Disbursements				
Current:				
Public Services:				
General Public Services	2,235,197	2,246,612	2,128,123	118,489
Purchased and Contracted Services	475,595	517,627	452,919	64,708
Library & Materials Information	716,365	741,893	716,814	25,079
Capital Outlay	31,474	39,104	28,555	10,549
<i>Total Disbursements</i>	<u>3,458,631</u>	<u>3,545,236</u>	<u>3,326,411</u>	<u>218,825</u>
<i>Excess of Cash Receipts Over/(Under) Cash Disbursements</i>	<u>(148,844)</u>	<u>(187,499)</u>	<u>32,587</u>	<u>220,086</u>
Transfers Out	0	0	(516,804)	(516,804)
<i>Net Change in Fund Balance</i>	<u>(148,844)</u>	<u>(187,499)</u>	<u>(484,217)</u>	<u>(296,718)</u>
<i>Fund Balance Beginning of Year</i>	786,365	786,365	786,365	0
Prior Year Encumbrances Appropriated	122,852	122,852	122,852	0
<i>Fund Balance End of Year</i>	<u>\$760,373</u>	<u>\$721,718</u>	<u>\$425,000</u>	<u>(\$296,718)</u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County

Statement of Net Assets - Cash Basis

December 31, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,808,719</u>
<i>Total Assets</i>	<u><u>\$4,808,719</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$3,847,068
Other Purposes	52,433
Unrestricted	<u>909,218</u>
<i>Total Net Assets</i>	<u><u>\$4,808,719</u></u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County

*Statement of Activities - Cash Basis
For the Year Ended December 31, 2005*

	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions
			Governmental Activities
Governmental Activities			
Public Services			
General Public Services	\$2,041,766	\$113,172	\$25,753
Purchased and Contracted Services	438,858		
Library Materials and Information	624,378		
Capital Outlay	190,334		
<i>Total Governmental Activities</i>	<u>\$3,295,336</u>	<u>\$113,172</u>	<u>\$25,753</u>
		General Receipts	
		Government Grants In Aid - LLGSF	3,147,987
		Interest	156,088
		Rental Income	7,200
		Miscellaneous	8,289
		<i>Total General Receipts</i>	<u>3,319,564</u>
		Total General Receipts, Transfers and Advances	<u>3,319,564</u>
		Change in Net Assets	163,153
		<i>Net Assets Beginning of Year</i>	<u>4,645,566</u>
		<i>Net Assets End of Year</i>	<u><u>\$4,808,719</u></u>

See accompanying notes to the basic financial statements

Muskingum County Library System Library, Muskingum County
Statement of Cash Basis Assets and Cash Basis Fund Balances
Governmental Funds
December 31, 2005

	General	Building & Repair Fund	Automation Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$909,217	\$2,713,892	\$1,045,640	\$139,970	\$4,808,719
<i>Total Assets</i>	<u>\$909,217</u>	<u>\$2,713,892</u>	<u>\$1,045,640</u>	<u>\$139,970</u>	<u>\$4,808,719</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	\$122,852	\$6,611	\$17,704		\$147,167
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	786,365				786,365
Special Revenue Funds				\$52,433	52,433
Capital Projects Funds		2,707,281	1,027,936	87,537	3,822,754
<i>Total Fund Balances</i>	<u>\$909,217</u>	<u>\$2,713,892</u>	<u>\$1,045,640</u>	<u>\$139,970</u>	<u>\$4,808,719</u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Building & Repair Fund	Automation Fund	Other Governmental Funds	Total Governmental Funds
Receipts					
Intergovernmental	\$3,147,987				\$3,147,987
Patron Fines and Fees	113,172				113,172
Contributions, Gifts and Donations	25,753				25,753
Earnings on Investments	32,329	\$82,512	\$36,587	\$4,660	156,088
Rental Income	7,200				7,200
Miscellaneous	8,289				8,289
<i>Total Receipts</i>	<u>3,334,730</u>	<u>82,512</u>	<u>36,587</u>	<u>4,660</u>	<u>3,458,489</u>
Disbursements					
Current:					
Public Services:					
General Public Services	2,041,098		668		2,041,766
Purchased and Contracted Services	401,412	13,719	23,727		438,858
Library & Materials Information	624,378				624,378
Capital Outlay	23,634	119,954	46,746		190,334
<i>Total Disbursements</i>	<u>3,090,522</u>	<u>133,673</u>	<u>71,141</u>	<u>0</u>	<u>3,295,336</u>
<i>Excess of Cash Receipts Over/(Under) Cash Disbursements</i>	<u>244,208</u>	<u>(51,161)</u>	<u>(34,554)</u>	<u>4,660</u>	<u>163,153</u>
Other Financing Sources (Uses)					
Transfers In	5,797				5,797
Transfers Out				(5,797)	(5,797)
<i>Total Other Financing Sources (Uses)</i>	<u>5,797</u>	<u>0</u>	<u>0</u>	<u>(5,797)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	250,005	(51,161)	(34,554)	(1,137)	163,153
<i>Fund Balances Beginning of Year</i>	<u>659,212</u>	<u>2,765,053</u>	<u>1,080,194</u>	<u>141,107</u>	<u>4,645,566</u>
<i>Fund Balances End of Year</i>	<u>\$909,217</u>	<u>\$2,713,892</u>	<u>\$1,045,640</u>	<u>\$139,970</u>	<u>\$4,808,719</u>

See accompanying notes to the basic financial statements

Muskingum County Library System, Muskingum County
Statement of Receipts, Disbursements and Changes
In Cash Basis Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts			(Optional) Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Intergovernmental	\$3,264,639	\$3,147,987	\$3,147,987	\$0
Patron Fines and Fees	99,950	105,600	113,172	7,572
Services Provided to Others	7,200	7,200	7,200	0
Contributions, Gifts and Donations	6,000	13,000	25,753	12,753
Earnings on Investments	10,000	32,000	32,329	329
Miscellaneous	6,000	4,000	8,289	4,289
<i>Total Receipts</i>	<u>3,393,789</u>	<u>3,309,787</u>	<u>3,334,730</u>	<u>24,943</u>
Disbursements				
Current:				
Public Services:				
General Public Services	2,110,775	2,123,155	2,048,286	74,869
Purchased and Contracted Services	487,670	526,744	441,546	85,198
Library & Materials Information	678,885	716,442	695,958	20,484
Capital Outlay	35,760	37,810	27,584	10,226
<i>Total Disbursements</i>	<u>3,313,090</u>	<u>3,404,151</u>	<u>3,213,374</u>	<u>190,777</u>
<i>Excess of Cash Receipts Over/(Under) Cash Disbursements</i>	<u>80,699</u>	<u>(94,364)</u>	<u>121,356</u>	<u>215,720</u>
Transfers In		5,797	5,797	0
<i>Net Change in Fund Balance</i>	80,699	(88,567)	127,153	215,720
<i>Fund Balance Beginning of Year</i>	531,047	531,047	531,047	0
Prior Year Encumbrances Appropriated	128,165	128,165	128,165	0
<i>Fund Balance End of Year</i>	<u>\$739,911</u>	<u>\$570,645</u>	<u>\$786,365</u>	<u>\$215,720</u>

See accompanying notes to the basic financial statements

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 1 – Description of the Reporting Entity

The Muskingum County Library System, Muskingum County (the Library), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of Ohio. The Library is directed by a seven-member Board of Trustees appointed by the Muskingum County Commissioners and the Muskingum County Common Pleas Court. The Library provides the community with various educational and literary resources.

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

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations included to assure that the basic financial statements are not misleading. The primary government of the Library consists of all funds, departments, boards and agencies that are not legally separate from the Library.

Component units are legally separate organizations for which the Library is financially accountable. Component units may also include organizations they are fiscally dependent upon the Library in that the Library approves their budget, the issuance of their debt or the levying of their taxes. The Library has no component units.

Note 2 – Summary of Significant Accounting Policies

These financial statements and notes are presented on a cash basis of accounting. The Library recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Government Accounting Standards Board (GASB) pronouncements.

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

A. Basis of Presentation

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

Government-Wide Financial Statements: The statement of net assets and the statement of activities display information about the Library as a whole.

The statement of net assets presents the financial condition of the governmental activities of the Library at year end. The Statement of Activities presents a comparison between direct disbursements and program receipts for each program or function of the Library's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts are charges paid by the recipient of the goods or services offered by the function, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular function and interest earned on grants and contributions that is required to be used to support a particular function. Receipts which are not classified

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 2 – Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

as program receipts are presented as general receipts of the library. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general receipts of the Library.

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

B. Fund Accounting

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

Governmental Funds - Governmental funds are those through which most governmental functions of the Library are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. The following are the Library's major governmental funds:

General Fund – The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Library for any purpose provided; it is expended or transferred according to the general laws of Ohio.

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

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

C. Basis of Accounting

The government-wide state of net assets and statement of activities and the fund financial statements are presented using the cash basis of accounting. The basis of accounting recognizes assets, liabilities, net assets/fund equity, receipts, and disbursements when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of this cash basis of accounting, certain assets and their related receipts and certain liabilities and their related disbursements are not recorded in these financial statements.

D. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 2 – Summary of Significant Accounting Policies (continued)

D. Budgetary Process (continued)

amounts that the Library may appropriate. The appropriation resolution is the Library's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Library. The legal level of control has been established by the Library at the fund level. The Clerk/Treasurer maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Clerk/Treasurer. The amounts reported as the original budget amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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

E. Cash and Investments

To improve cash management, cash received by the Library is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Library's records. The Library followed Ohio statutes for the allocation of interest earnings among the Library's funds. All funds received interest based on a prorated share of the pools fund balance at the time of the receipt of the interest.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Library are presented on the financial statements as cash equivalents.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are imposed by creditors, contributors, grantors or laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

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

G. Inventory and Prepaid Items

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

H. Capital Assets

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

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 2 – Summary of Significant Accounting Policies (continued)

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

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

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

L. Fund Balance Reserves

The Library reserves those portions of the fund balance which are legally segregated for a specific future use or which are not available for appropriation or expenditure. Fund reserves have been established for encumbrances.

Note 3 – Grants-in-Aid and Tax Receipts

The primary source of revenue for Ohio public libraries is the Library and Local Government Support Fund (LLGSF). The LLGSF is 5.7% of the State personal income tax. It is currently frozen at the 2001 fiscal year level. The LLGSF is allocated to each county based on the county's prior year LLGSF revenues and its population. The County Budget Commission allocates these funds to the Library based on its needs such as the construction of new library buildings, improvements, operation, maintenance or other expenses. The Budget Commission cannot reduce its allocation of these funds to the Library based on any additional revenues the Library receives.

Note 4 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference(s) between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$155,306 and \$122,852, respectively.

Note 5 – Deposits and Investments

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

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

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 5 – Deposits and Investments (continued)

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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

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

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

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

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 5 – Deposits and Investments (continued)

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Library will not be able to recover deposits or collateral securities that are in the possession of an outside party. For the years ended December 31, 2006 and 2005, the carrying amount of the deposits was \$4,825,719 and \$4,808,719. At year ended December 31, 2006 and 2005, \$4,640,651 and \$4,592,377 of the Library's deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Library's name.

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

Note 6 – Risk Management

The library is exposed to various risks of loss related to torts; theft of, damage to, and destructions of assets; errors and omissions; injuries to employees; and natural disasters. During 2006 and 2005, the Library contracted with several companies for various types of insurances coverage as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Hylant Administrative Services	Commercial Property	\$13,131,281
	Liability	3,000,000
	Errors and Omissions	3,000,000
	Vehicle	1,000,000
	Employee Dishonesty	100,000
	Employee Benefits Liability	3,000,000

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

Note 7 – Defined Benefit Pension Plan

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

Muskingum County Library System
Notes to the Basic Financial Statements
For the Years Ended December 31, 2006 and 2005

Note 7 – Defined Benefit Pension Plan (continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 227 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)222-6701 or 800-222-7377.

For the years ended December 31, 2006 and 2005, the members of all three plans were required to contribute 9 percent and 8.5 percent, respectively, of their annual covered salaries. The Library's contribution rates for pension benefits for 2006 and 2005 were 13.70 percent and 13.55 percent, respectively. 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 \$210,185, \$202,560 and \$193,524, respectively.

Note 8 – Post-employment Benefits

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either traditional pension or combined plans. Health care coverage for disability recipients and qualified 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 Postemployment 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 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.

Benefits are advance-funded using the individual entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

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

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 postemployment benefits were \$11.1 billion. The actual contribution and the actuarially required contribution amounts are the same. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion respectively. The Library has paid all contributions required through December 31, 2006.

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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*

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

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Muskingum County Library System, Muskingum County, Ohio (the Library), as of and for the years ended December 31, 2006 and 2005, which collectively comprise the Library's basic financial statements and have issued our report thereon dated July 19, 2007. 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 basic financial statements, but not to opine on the effectiveness of the Library's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Library's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

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

Mary Taylor, CPA
Auditor of State

July 19, 2007



Mary Taylor, CPA
Auditor of State

MUSKINGUM COUNTY LIBRARY SYSTEM

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 18, 2007**