



Mary Taylor, CPA
Auditor of State

**MASON PUBLIC LIBRARY
WARREN COUNTY**

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MASON PUBLIC LIBRARY
WARREN COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Mason Public Library
Warren County
200 Reading Road
Mason, Ohio 45040

To the Board of Trustees:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities and each major fund of Mason Public Library, Warren County, Ohio, as of December 31, 2006 and the respective changes in modified 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 December 18, 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 18, 2007

Mason Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

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

Highlights

Key highlights for 2006 are as follows:

Net assets of governmental activities increased \$16,672, or less than 1% from the prior year. The fund most affected by the increase in cash, cash equivalents and investments was the General Fund, which also realized the greatest burden of increased costs in 2006.

The Library's general receipts are primarily from the Local Library Government Support Fund (LLGSF). These receipts represent respectively 89% of the total cash received for governmental activities during the year. The LLGSF receipts for 2006 decreased \$16,444 compared to 2005, mainly due to the Tax Freeze implemented in 2001. While receipts are frozen, expenses continue to increase. The combination of inflation and the rapid population growth in this service district creates additional demands for materials and services.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

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

Mason Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Reporting the Library as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2006, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments 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 modified cash basis of accounting, you can think of these changes as one way to measure the Library's financial health. Over time, increases or decreases in the Library's cash position is one indicator of whether the Library's financial health is improving or deteriorating. When evaluating the Library's financial condition, you should also consider other nonfinancial factors as well such as the condition of the Library's capital assets, the reliance on the LLGSF for operations and the need for continued growth in the local government funds.

In the statement of net assets and the statement of activities, the Library reports all financial activity as Governmental Activities. This activity includes all the Library's basic activities, including library services, support services, and capital outlay. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Library's Most Significant Funds

Fund financial statements provide detailed information about the Library's major funds – not the Library as a whole. The Library establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. All of the Mason Public Library's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Library's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Library's programs. The Library's significant governmental funds are presented on the financial statements in separate columns. The Library's major governmental funds are the General Fund and the Building Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Mason Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The Library as a Whole

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

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Assets		
Cash and Cash Equivalents	\$881,223	\$913,972
Investments	1,019,735	970,314
Total Assets	1,900,958	1,884,286
 Net Assets		
Restricted for:		
Capital Outlay	956,452	952,813
Unrestricted	944,506	931,473
Total Net Assets	\$1,900,958	\$1,884,286

As mentioned previously, net assets of governmental activities increased \$16,672, or less than one percent during 2006. The primary reasons contributing to the slight increase in total assets are as follows:

- Because the state funding receipts have remained at the 2001 level for five years, the 2006 budget and expenses were very similar to the 2005 expenses.
- Dramatic increases in registered patrons (14%), material circulation (28%), and overall population increases have created additional demand on materials and services. This contributed to a modest increase in the number of patron fines collected.
- Rising overall interest rates provided for a sizable increase in investment income compared to 2005 interest rates.

Table 2 reflects the changes in net assets in 2006 compared to 2005.

Mason Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

(Table 2)
Changes in Net Assets

	Governmental Activities	
	2006	2005
Receipts:		
Program Receipts:		
Patron Fines/Fees	\$48,342	\$44,203
Total Program Receipts	<u>48,342</u>	<u>44,203</u>
General Receipts:		
Property and Other Local Taxes	1,170,273	1,186,717
Gifts	9,180	8,442
Interest	89,309	53,179
Miscellaneous	541	4,616
Total General Receipts	<u>1,269,303</u>	<u>1,252,954</u>
Total Receipts	<u>1,317,645</u>	<u>1,297,157</u>
Disbursements:		
Salaries	580,430	556,355
Employee Fringe Benefits	205,755	189,847
Purchased & Contracted Services	141,100	160,307
Library Materials & Information	257,922	275,727
Supplies	30,798	32,664
Other	5,623	6,425
Capital Outlay	79,345	129,196
Other Financing Sources	0	333
Total Disbursements	<u>1,300,973</u>	<u>1,350,854</u>
Increase (Decrease) in Net Assets	16,672	(53,697)
Net Assets, January 1	<u>1,884,286</u>	<u>1,937,983</u>
Net Assets, December 31	<u>\$1,900,958</u>	<u>\$1,884,286</u>

Program receipts represent only four percent of total receipts and are primarily comprised of patron fine receipts.

General receipts represent 96 percent of the Library's total receipts, and of this amount, over 92 percent are Local Library Government Support Fund taxes. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for Governmental Activities represent the overhead costs of running the Library and the support services provided for the other Library activities. These include the costs of books, audio/visual materials, salaries, utilities, health insurance and retirement benefits.

Mason Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the Library. The major program disbursements are for payroll and payroll related expenses, book purchases, and services related to operating a library facility.

The Mason Public Library's Funds

Total governmental funds had receipts of \$1,317,645 and disbursements of \$1,300,973. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$16,672, mainly as the result of rising interest rates and the returns received on invested cash.

General Fund receipts were more than disbursements by \$13,033, indicating that the General Fund operated on a balanced spending situation in 2006. Because of the rapid population growth in Mason and Deerfield Township, demands for service continue to increase significantly. Every effort is being made to continue the current level of service to our patrons. The Library Board is aware the financial standings and is challenged to maintain a balanced budget while continuing to provide valuable services to our patrons.

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 2006, the Library amended its General Fund budget to reflect changing circumstances. Final actual receipts were above original budgeted receipts by \$56,352. Donations, patron fine receipts and interest receipts exceeded estimates, with earnings on investments as the most significant factor. Final disbursements were budgeted at \$1,959,799 while actual disbursements were \$1,446,790.

Current Issues

The challenge for all Ohio Libraries is to provide quality services to the public while staying within the restrictions imposed by state funding. We rely almost exclusively on state funding. Although Ohio law sets library funding at 5.7% of state income taxes, our receipts have been frozen at the 2001 level. Public demands, technology advances, and area growth have increased significantly.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors 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 Karen Von Barga, Fiscal Officer/Clerk, Mason Public Library, 200 Reading Road, Mason Ohio 45040.

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MASON PUBLIC LIBRARY

WARREN COUNTY

Statement Of Net Assets - Modified Cash Basis

December 31, 2006

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$881,223
Investments	<u>1,019,735</u>
<i>Total Assets</i>	<u><u>\$1,900,958</u></u>
Net Assets	
Restricted for Capital Outlay	956,452
Unrestricted	<u>944,506</u>
<i>Total Net Assets</i>	<u><u>\$1,900,958</u></u>

See accompanying notes to the basic financial statements

MASON PUBLIC LIBRARY
WARREN COUNTY
Statement of Activities - Modified 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				
Library Services:				
Salaries	\$580,430	\$0	\$0	(\$580,430)
Employee Fringe Benefits	205,755	0	0	(205,755)
Purchased and Contractual Services	141,100	0	0	(141,100)
Library Materials and Information	257,922	48,342	0	(209,580)
Supplies	30,798	0	0	(30,798)
Other	5,623	0	0	(5,623)
Capital Outlay	79,345	0	0	(79,345)
				0
<i>Total Governmental Activities</i>	<u>\$1,300,973</u>	<u>\$48,342</u>	<u>\$0</u>	<u>(1,252,631)</u>
General Receipts				
				9,180
				1,170,273
				89,309
				541
				<u>1,269,303</u>
				16,672
				<u>1,884,286</u>
				<u>\$1,900,958</u>

See accompanying notes to the basic financial statements

MASON PUBLIC LIBRARY

WARREN COUNTY

Statement of Modified Cash Basis Assets and Fund Balances

Governmental Funds

December 31, 2006

	<u>General</u>	<u>Building Fund</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$881,223	\$0	\$881,223
Investments	63,283	956,452	1,019,735
<i>Total Assets</i>	<u>\$944,506</u>	<u>\$956,452</u>	<u>\$1,900,958</u>
Fund Balances			
Reserved:			
Reserved for Encumbrances	\$191,792	\$3,849	\$195,641
Unreserved:			
Undesignated Reported in:			
General Fund	752,714	0	752,714
Capital Projects Funds	0	952,603	952,603
<i>Total Fund Balances</i>	<u>\$944,506</u>	<u>\$956,452</u>	<u>\$1,900,958</u>

See accompanying notes to the basic financial statements

**MASON PUBLIC LIBRARY
WARREN COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2006*

	General	Building Fund	Total Governmental Funds
Receipts			
Intergovernmental	\$1,170,273	\$0	\$1,170,273
Patron Fines and Fees	48,342	0	48,342
Contributions, Gifts and Donations	3,100	6,080	9,180
Earnings on Investments	45,774	43,535	89,309
Miscellaneous	541	0	541
<i>Total Receipts</i>	<u>1,268,030</u>	<u>49,615</u>	<u>1,317,645</u>
Disbursements			
Current:			
Library Services:			
Salaries	580,430	0	580,430
Employees Fringe Benefits	205,755	0	205,755
Purchased and Contractual Services	141,100	0	141,100
Library Materials and Information	257,922	0	257,922
Supplies	30,798	0	30,798
Other	5,623	0	5,623
Capital Outlay	33,369	45,976	79,345
<i>Total Disbursements</i>	<u>1,254,997</u>	<u>45,976</u>	<u>1,300,973</u>
<i>Excess of Receipts Over Disbursements</i>	<u>13,033</u>	<u>3,639</u>	<u>16,672</u>
<i>Net Change in Fund Balances</i>	13,033	3,639	16,672
<i>Fund Balances Beginning of Year</i>	<u>931,473</u>	<u>952,813</u>	<u>1,884,286</u>
<i>Fund Balances End of Year</i>	<u><u>\$944,506</u></u>	<u><u>\$956,452</u></u>	<u><u>\$1,900,958</u></u>

See accompanying notes to the basic financial statements

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

	<u>Budgeted Amounts</u>			(Optional)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Receipts				
Intergovernmental	\$1,219,389	\$1,170,273	\$1,170,273	\$0
Patron Fines and Fees	37,080	37,080	48,343	11,263
Contributions, Gifts and Donations	2,060	2,060	3,100	1,040
Earnings on Investments	2,060	2,060	45,774	43,714
Miscellaneous	206	206	541	335
<i>Total receipts</i>	<u>1,260,795</u>	<u>1,211,679</u>	<u>1,268,031</u>	<u>56,352</u>
Disbursements				
Current:				
Library Services:				
Salaries	639,430	641,730	580,430	61,300
Employee Fringe Benefits	284,719	284,719	205,756	78,963
Purchased and Contractual Services	323,718	323,718	206,306	117,412
Library Materials and Information	417,737	417,737	351,153	66,584
Supplies	47,028	47,028	33,986	13,042
Other	12,340	12,340	10,291	2,049
Capital Outlay	181,827	181,827	58,868	122,959
<i>Total Disbursements</i>	<u>1,906,799</u>	<u>1,909,099</u>	<u>1,446,790</u>	<u>462,309</u>
<i>Excess of Receipts (Under) Disbursements</i>	<u>(646,004)</u>	<u>(697,420)</u>	<u>(178,759)</u>	<u>518,661</u>
Other Financing Sources (Uses)				
Transfers Out	(8,000)	(5,700)	0	5,700
Other Financing Uses	(45,000)	(45,000)	0	45,000
<i>Total Other Financing (Uses)</i>	<u>(53,000)</u>	<u>(50,700)</u>	<u>0</u>	<u>50,700</u>
<i>Net Change in Fund Balance</i>	<u>(699,004)</u>	<u>(748,120)</u>	<u>(178,759)</u>	<u>569,361</u>
<i>Fund Balance Beginning of Year</i>	721,229	721,229	721,229	0
Prior Year Encumbrances Appropriated	210,244	210,244	210,244	0
<i>Fund Balance End of Year</i>	<u>\$232,469</u>	<u>\$183,353</u>	<u>\$752,714</u>	<u>\$569,361</u>

See accompanying notes to the basic financial statements

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Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 1 – Description of the Library and Reporting Entity

The Mason Public Library was organized as a municipal public library in 1977 under the laws of the State of Ohio. The Library has its own Board of Trustees of six members who are appointed by the Mason City Mayor. Appointments are for three-year terms and members serve without compensation. Under Ohio statutes, the Library is a body politic and corporate capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. Control and management of the Library is governed by sections 3375.33 to 3375.39 of the Ohio Revised Code with the administration of the day-to-day operations of the Library being the responsibility of the Director and financial accountability being solely that of the Fiscal Officer/Clerk.

The Library is fiscally independent of the City of Mason and Deerfield Township. The determination to request approval of a tax levy, the role and purpose(s) of the levy, are discretionary decisions made solely by the Board of Library Trustees. Once those decisions are made, the Library's taxing authority must put the levy on the ballot. There is no potential for the Library to provide a financial benefit to or impose a financial burden on the Board of Trustees.

Under the provisions of Statement No. 14 of the Governmental Accounting Standards Board, "The Financial Reporting Entity," the Library is considered to be a related organization of the City of Mason.

The Library has no component units.

The Friends of the Mason Public Library is a not-for-profit organization with a self-appointing board. The Mason Public Library donates discarded and unused books to the Friends group. The proceeds of the annual book sale are the property of the Friends group. The assets of the group are for the purpose of assistance to the Library on an as-needed basis. 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 in Note 2. C, the financial statements of the Mason Public Library have been prepared on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting.

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.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. Governmental activities generally are financed through the Local Library Government Support Fund (LLGSF).

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006
(Continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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 late fees, lost book fees, charges paid by the recipient of the program's goods or services, and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the Library's general receipts.

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

Governmental funds are financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange 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.

Building Fund - This fund accounts for monies set aside by the Board of Library Trustees specifically for major capital and technology improvements.

C. Basis of Accounting

The Library's financial statements are prepared using the modified 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. Modifications to the cash basis of accounting made by the Library are described in Note 2E.

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

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006
(Continued)

Note 2 - Summary of Significant Accounting Policies (continued)

D. Budgetary Process

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

For control purposes, the Library estimates cash receipts for the year. These estimated receipts, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated receipts may be revised during the year if projected increases or decreases in receipts are identified by the Fiscal Officer/Clerk. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriations were enacted by the Trustees.

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

E. Cash and Cash Equivalents and Investments

To improve cash management, cash received by the Library is pooled and invested. Individual fund integrity is maintained through the Library's records. 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.

During 2006, investments were limited to STAR Ohio and the library owns 550 shares of General Electric Stock, which were received as a donation. The value of the stock is included in investments. The value is adjusted on an annual basis

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. In compliance with H.B. 674, (Board Resolution 71-99) interest is credited to the fund from which they arose. All interest earned on the checking account is credited to the General Fund. Interest credited to the General Fund during 2006 amounted to \$45,774. Interest credited to the Building Fund in 2006 amounted to \$43,535.

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006
(Continued)

Note 2 - Summary of Significant Accounting Policies (continued)

F. 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.

G. 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.

H. Accumulated Leave

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

I. 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. 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.

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

L. Fund Balance Reserves

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

Note 3 – Change in Basis of Accounting and Restatement of Fund Equity

In 2004, the Library reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. In 2005, the Library implemented the modified cash basis of accounting described in Note 2. The fund financial statements now present each major fund in a separate column rather than a column for each fund type.

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006
(Continued)

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 between the budgetary basis and the modified cash basis are outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis) (and outstanding year end advances are treated as an other financing source or use (budgetary basis) rather than as an interfund receivable or payable (modified cash basis).

The encumbrances outstanding at year end (budgetary basis) amounted to \$191,792 for the General fund and \$3,849 for the Building fund.

Note 5 - 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:

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 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 two percent and 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;
5. 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;

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006
(Continued)

Note 5 -Deposits and Investments (continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the Library's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged to the Library by the financial institution as security for repayment or by a 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 \$50 in undeposited cash on hand, which is included on the balance sheet of the Library as part of "Equity in Pooled Cash, Cash Equivalents and Investments."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments."

At year end, the carrying amount of the Library's deposits was \$881,223 and the bank balance was \$945,029. Of the bank balance, \$300,000 was covered by federal depository insurance and \$645,029 was uninsured and uncollateralized. 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. Deposits are insured by the Federal Deposit Insurance Cooperation; or collateralized by the financial institutions public entity risk pool.

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

	Carrying Value
Shares of GE stock (held by Library)	\$ 23,115
STAR Ohio	996,620
Total Investments	\$ 1,019,735

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

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006
(Continued)

Note 5 - Deposits and Investments (continued)

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee." Of the Library's total investments, 2.3% are GE Stock and 97.7% are STAR Ohio.

Note 6 – Capital Assets

The Library chooses not to report and depreciate capital assets resulting from cash transactions in the financial statements and elects not to report capital asset activity in the notes to the financial statements. Capital assets held by the Library in the year ended December 31, 2006 are as follows:

Land and Building at 200 Reading Road
Land Improvements – Parking lot at 200 S. West Street
Vehicle - 2002 Dodge Caravan

Note 7 - 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>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Motorists Mutual	Commercial	\$ 2,330,000
	Property	
	General Liability	2,000,000
	Commercial Crime	
	Inland Marine	20,895
Republic-Franklin Insurance	Vehicle	505,000
	Errors and Omissions	500,000/1,500,000
Cincinnati Insurance Company	Library Officials	\$ 5,000/50,000

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.

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006
(Continued)

Note 8 - 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. 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.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

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 \$79,458, \$75,251, and \$71,554 respectively; the full amount was contributed for 2006, 2005, and 2004. The Library had no contributions to the member-directed plan for 2006.

Note 9 - Postemployment 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 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 employer contribution rate was 13.7 percent of covered payroll; 4.5 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a return on investment assumption rate 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 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rates plus an additional factor ranging from .5% to 6 percent annually for the next nine years and 4.00 percent annually after nine 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.

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006
(Continued)

Note 9 - Postemployment Benefits (continued)

The number of active contributing participants in the traditional and combined plans was 369,214. 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, were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

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

Note 10 – Leases

The Library leases a copier under a noncancelable lease. The Library disbursed \$1,658 to pay lease costs for the year ended December 31, 2006. Future lease payments are as follows:

Year	Amount
2007	\$1,560
2008	520
Total	<u>\$2,080</u>

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Mason Public Library
Warren County
200 Reading Road
Mason, Ohio 45040

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities and each major fund of Mason Public Library, Warren County, Ohio (the Library), as of and for the year ended December 31, 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. The Library processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Library because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities and each major fund of Mason Public Library, Warren County, Ohio, as of December 31, 2005 and the respective changes in modified 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.

For the year ended December 31, 2005 the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 18, 2007

Mason Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

This discussion and analysis of the Mason Public Library's financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2005, within the limitations of the Library's modified cash basis accounting.

Highlights

Key highlights for 2005 are as follows:

Net assets of governmental activities decreased \$53,697, or 2.8% percent from the prior year. The fund most affected by the decrease in cash and cash equivalents was the General Fund, which realized the greatest burden of increased costs in 2005.

The Library's general receipts are primarily from the Local Library Government Support Fund (LLGSF). These receipts represent respectively 95% of the total general receipts for governmental activities during the year. The LLGSF receipts for 2005 changed very little compared to 2004 due to the Tax Freeze implemented in 2001. While receipts are frozen, expenses continue to increase. The combination of inflation and the rapid population growth in this service district creates additional demands for materials and services.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

Mason Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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

Reporting the Library as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments 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 modified cash basis of accounting, you can think of these changes as one way to measure the Library's financial health. Over time, increases or decreases in the Library's cash position is one indicator of whether the Library's financial health is improving or deteriorating. When evaluating the Library's financial condition, you should also consider other nonfinancial factors as well such as the condition of the Library's capital assets, the reliance on the LLGSF for operations and the need for continued growth in the local government funds.

In the statement of net assets and the statement of activities, the Library reports all financial activity as Governmental Activities. This activity includes all the Library's basic activities, including library services, support services, and capital outlay. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Library's Most Significant Funds

Fund financial statements provide detailed information about the Library's major funds – not the Library as a whole. The Library establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. All of the Mason Public Library's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Library's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Library's programs. The Library's significant governmental funds are presented on the financial statements in separate columns. The Library's major governmental funds are the General Fund, Dater Building Fund and the Building Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Mason Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The Library as a Whole

Table 1 provides a summary of the Library's net assets for 2005 compared to 2004 on a modified cash basis:

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$913,972	\$607,016
Investments	970,314	1,330,967
Total Assets	1,884,286	1,937,983
 Net Assets		
Restricted for:		
Capital Outlay	952,813	1,043,553
Unrestricted	931,473	894,430
Total Net Assets	\$1,884,286	\$1,937,983

As mentioned previously, net assets of governmental activities decreased \$53,697 or 2.8% during 2005. The primary reasons contributing to the decreases in total assets are as follows:

- The state funding receipts have remained at the 2001 level for four years.
- Dramatic increases in registered patrons, material circulation, and overall population increases have created additional demand on materials and services.
- Due to the rapidly changing technology needs of the public. Development and upkeep is necessary to remain a viable part of our community.
- The costs of purchasing materials, paying utilities, and staff needs have risen in general.
- Health benefit costs increased over 11% from the previous year.

Mason Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Table 2 reflects the changes in net assets in 2005. Since the Library did not prepare financial statements in this format for 2004, a comparative analysis of library-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales (Patron fines)	\$44,203
Total Program Receipts	44,203
General Receipts:	
Intergovernmental	1,186,717
Gifts	8,442
Interest	53,179
Miscellaneous	4,616
Total General Receipts	1,252,954
Total Receipts	1,297,157
 Disbursements	
Salaries	556,355
Employee Fringe Benefits	189,847
Purchased & Contracted Services	160,307
Library Materials & Information	275,727
Supplies	32,664
Other	6,425
Capital Outlay	129,196
Other Financing Sources	333
Total Disbursements	1,350,854
 (Decrease) in Net Assets	(53,697)
 Net Assets, January 1	1,937,983
Net Assets, December 31	\$1,884,286

Program receipts represent only three percent of total receipts and are primarily comprised of patron fine receipts.

General receipts represent 97% of the Library's total receipts, and of this amount, over 95 percent are Local Library Government Support Fund taxes. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Governmental Activities represent the overhead costs of running the Library and the support services provided for the other Library activities. These include the costs of book, audio/visual materials, salaries, utilities, health insurance and retirement benefits.

Mason Public Library
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the Library. The major program disbursements are for payroll and payroll related expenses, book purchases, and services related to operating a library facility.

The Mason Public Library's Funds

Total governmental funds had receipts of \$1,297,157 and disbursements of \$1,350,854. The greatest change within governmental funds occurred within the General Fund. The fund balance of the Governmental Fund decreased \$53,697 as the result of increased costs of operation and no growth in state funding.

General Fund receipts were less than disbursements by \$37,043, indicating that the General Fund is in a deficit spending situation. Because of the rapid population growth in Mason and Deerfield Township, demands for service have increased significantly. Every effort is being made to continue the current level of service to our patrons. The Library Board is aware of the deficit spending situation and also the current cash balance. Reduction methods have been discussed and are available if the state funding legislation does not address the rising costs of operation for this important public service.

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 2005, the Library amended its General Fund budget to reflect changing circumstances. Final budgeted receipts were below original budgeted receipts due to receiving \$49,809 less state funding than was certified. Donations and interest receipts exceeded estimates. The variance between final budgeted receipts and actual receipts was (\$7,143). Final disbursements were budgeted at \$1,726,945 while actual disbursements were \$1,442,784.

Current Issues

The challenge for all Ohio Libraries is to provide quality services to the public while staying within the restrictions imposed by state funding. We rely almost exclusively on state funding. Although Ohio law sets library funding at 5.7% of state income taxes, our receipts have been frozen at the 2001 level. Public demands, technology advances, area growth and basic operating costs have increased significantly. Based on the funding pattern demonstrated for the past four years, we will operate at a deficit in 2006 and 2007.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors 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 Karen Von Barga, Fiscal Officer/Clerk, Mason Public Library, 200 Reading Road, Mason Ohio 45040.

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MASON PUBLIC LIBRARY

WARREN COUNTY

Statement Of Net Assets - Modified Cash Basis

December 31, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$913,972
Investments	<u>970,314</u>
<i>Total Assets</i>	<u><u>\$1,884,286</u></u>
Net Assets	
Restricted for Capital Outlay	\$952,813
Unrestricted	<u>931,473</u>
<i>Total Net Assets</i>	<u><u>\$1,884,286</u></u>

See accompanying notes to the basic financial statements

MASON PUBLIC LIBRARY
WARREN COUNTY
Statement of Activities - Modified 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				
Library Services:				
Salaries	\$556,354	\$0.00	\$0	(\$556,354)
Employee Fringe Benefits	189,847	0	0	(189,847)
Purchased and Contractual Services	160,307	0	0	(160,307)
Library Materials and Information	275,727	44,203	0	(231,524)
Supplies	32,664	0	0	(32,664)
Other	6,426	0	0	(6,426)
Other Financing Uses	333	0	0	(333)
Capital Outlay	129,196	0	0	(129,196)
Total Governmental Activities	\$1,350,854	\$44,203	\$0	(1,306,651)
General Receipts				
				8,442
				1,186,717
				53,179
				4,616
				<u>1,252,954</u>
				Change in Net Assets
				<u>(53,697)</u>
				Net Assets Beginning of Year
				<u>1,937,983</u>
				Net Assets End of Year
				<u><u>\$1,884,286</u></u>

See accompanying notes to the basic financial statements

MASON PUBLIC LIBRARY

WARREN COUNTY

Statement of Modified Cash Basis Assets and Fund Balances

Governmental Funds

December 31, 2005

	<u>General</u>	<u>Building Fund</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$910,409	\$3,563	\$913,972
Investments	21,064	949,250	970,314
<i>Total Assets</i>	<u>\$931,473</u>	<u>\$952,813</u>	<u>\$1,884,286</u>
Fund Balances			
Reserved:			
Reserved for Encumbrances	\$210,244	\$83,917	\$294,161
Unreserved:			
Undesignated Reported in:			
General Fund	721,229	-	721,229
Capital Projects Funds	-	868,896	868,896
<i>Total Fund Balances</i>	<u>\$931,473</u>	<u>\$952,813</u>	<u>\$1,884,286</u>

See accompanying notes to the basic financial statements

**MASON PUBLIC LIBRARY
WARREN COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2005*

	General	Dater Building Fund	Building Fund	Total Governmental Funds
Receipts				
Intergovernmental	\$1,186,717	0	\$0	\$1,186,717
Patron Fines and Fees	44,203	0	0	44,203
Contributions, Gifts and Donations	7,437	0	1,005	8,442
Earnings on Investments	26,610	0	26,569	53,179
Miscellaneous	4,616	0	0	4,616
<i>Total Receipts</i>	<u>1,269,583</u>	<u>0</u>	<u>27,574</u>	<u>1,297,157</u>
Disbursements				
Current:				
Library Services:				
Salaries	556,355	0	0	556,355
Employees Fringe Benefits	189,847	0	0	189,847
Purchased and Contractual Services	160,307	0	0	160,307
Library Materials and Information	275,727	0	0	275,727
Supplies	32,664	0	0	32,664
Other Financing Sources	333	0	0	333
Other	6,425	0	0	6,425
Capital Outlay	10,882	779	117,535	129,196
<i>Total Disbursements</i>	<u>1,232,540</u>	<u>779</u>	<u>117,535</u>	<u>1,350,854</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>37,043</u>	<u>(779)</u>	<u>(89,961)</u>	<u>(53,697)</u>
<i>Net Change in Fund Balances</i>	37,043	(779)	(89,961)	(53,697)
<i>Fund Balances Beginning of Year</i>	<u>894,430</u>	<u>779</u>	<u>1,042,774</u>	<u>1,937,983</u>
<i>Fund Balances End of Year</i>	<u>\$931,473</u>	<u>\$0</u>	<u>\$952,813</u>	<u>\$1,884,286</u>

See accompanying notes to the basic financial statements

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	(Optional)
	<u>Original</u>	<u>Final</u>		Variance with Final Budget Positive (Negative)
Receipts				
Intergovernmental	\$1,236,526	\$1,236,526	\$1,186,717	(49,809)
Patron Fines and Fees	36,000	36,000	44,203	8,203
Contributions, Gifts and Donations	2,000	2,000	7,437	5,437
Earnings on Investments	2,000	2,000	26,610	24,610
Miscellaneous	300	200	4,616	4,416
<i>Total receipts</i>	<u>1,276,826</u>	<u>1,276,726</u>	<u>1,269,583</u>	<u>(7,143)</u>
Disbursements				
Current:				
Library Services:				
Salaries	637,254	637,254	556,355	80,899
Employee Fringe Benefits	258,970	258,970	220,799	38,171
Purchased and Contractual Services	251,987	251,987	220,232	31,755
Library Materials and Information	416,288	416,288	370,305	45,983
Supplies	42,007	42,007	35,812	6,195
Other	12,180	12,180	10,598	1,582
Capital Outlay	56,259	56,259	28,683	27,576
<i>Total Disbursements</i>	<u>1,674,945</u>	<u>1,674,945</u>	<u>1,442,784</u>	<u>232,161</u>
<i>Excess of Receipts (Under) Disbursements</i>	<u>(398,119)</u>	<u>(398,219)</u>	<u>(173,201)</u>	<u>225,018</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	0	50	0	(50)
Transfers In	0	50	0	(50)
Transfers Out	(52,000)	(52,000)	0	52,000
<i>Total Other Financing Sources (Uses)</i>	<u>(52,000)</u>	<u>(51,900)</u>	<u>0</u>	<u>51,900</u>
<i>Net Change in Fund Balance</i>	<u>(450,119)</u>	<u>(450,119)</u>	<u>(173,201)</u>	<u>276,918</u>
<i>Fund Balance Beginning of Year</i>	677,104	677,104	677,104	0
Prior Year Encumbrances Appropriated	217,326	217,326	217,326	0
<i>Fund Balance End of Year</i>	<u>\$444,311</u>	<u>\$444,311</u>	<u>\$721,229</u>	<u>\$276,918</u>

See accompanying notes to the basic financial statements

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Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 1 – Description of the Library and Reporting Entity

The Mason Public Library was organized as a municipal public library in 1977 under the laws of the State of Ohio. The Library has its own Board of Trustees of six members who are appointed by the Mason City Mayor. Appointments are for three-year terms and members serve without compensation. Under Ohio statutes, the Library is a body politic and corporate capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. Control and management of the Library is governed by sections 3375.33 to 3375.39 of the Ohio Revised Code with the administration of the day-to-day operations of the Library being the responsibility of the Director and financial accountability being solely that of the Clerk-Treasurer.

The Library is fiscally independent of the City of Mason and Deerfield Township. The determination to request approval of a tax levy, the role and purpose(s) of the levy, are discretionary decisions made solely by the Board of Library Trustees. Once those decisions are made, the Library's taxing authority must put the levy on the ballot. There is no potential for the Library to provide a financial benefit to or impose a financial burden on the Board of Trustees.

Under the provisions of Statement No. 14 of the Governmental Accounting Standards Board, "The Financial Reporting Entity," the Library is considered to be a related organization of the City of Mason.

The Library has no component units.

The Friends of the Mason Public Library is a not-for-profit organization with a self-appointing board. The Mason Public Library donates discarded and unused books to the Friends group. The proceeds of the annual book sale are the property of the Friends group. The assets of the group are for the purpose of assistance to the Library on an as-needed basis. 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 Mason Public Library have been prepared on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting.

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.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. Governmental activities generally are financed through the Local Library Government Support Fund (LLGSF).

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005
(Continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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 late fees, lost book fees, charges paid by the recipient of the program's goods or services, and contributions restricted to meeting the operational or capital requirements of 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 activity is self-financing on a modified 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 (and enterprise) fund financial statements is on major funds. Each major fund is presented in a separate column.

B. Fund Accounting

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

Governmental Funds

Governmental funds are financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange 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.

Building Fund – This fund accounts for monies set aside by the Board of Library Trustees specifically for major capital and technology improvements.

Dater Fund – This fund accounts for monies given to the library for the maintenance of the building.

C. Basis of Accounting

The Library's financial statements are prepared using the modified 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. Modifications to the cash basis of accounting are described in Note 2.

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005
(Continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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

D. Budgetary Process

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

For control purposes, the Library estimates cash receipts for the year. These estimated receipts, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated receipts may be revised during the year if projected increases or decreases in receipts are identified by the Fiscal Officer/Clerk. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriations were enacted by the Trustees.

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

E. Cash, Cash Equivalents and Investments

To improve cash management, cash received by the Library is pooled and invested. Individual fund integrity is maintained through the Library's records. 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.

During 2005, investments were limited to STAR Ohio and the library owns 550 shares of General Electric Stock, which was received as a donation. The value of the stock is included in investments. The value is adjusted on an annual basis

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005.

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005
(Continued)

Note 2 - Summary of Significant Accounting Policies (continued)

Investment procedures are restricted by the provisions of the Ohio Revised Code. In compliance with H.B. 674, (Board Resolution 71-99) interest is credited to the fund from which they arose. All interest earned on the checking account is credited to the General Fund. Interest credited to the General Fund during 2005 amounted to \$26,610. Interest credited to the Building Fund in 2005 amounted to \$26,569.

F. 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.

G. 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.

H. Accumulated Leave

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

I. 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. 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.

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

L. Fund Balance Reserves

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

Note 3 – Change in Basis of Accounting and Restatement of Fund Equity

In 2004, the Library reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Library has implemented the modified cash basis of accounting described in Note 2. The fund financial statements now present each major fund in a separate column rather than a column for each fund type.

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005
(Continued)

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 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 modified cash basis is outstanding year end encumbrances are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (modified cash basis). There was \$210,244 in outstanding encumbrances at year end (budgetary basis) for the general fund.

Note 5 - 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:

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 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 two percent and 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;
5. 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;
6. The State Treasurer's investment pool (STAR Ohio);

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005
(Continued)

Note 5 - Deposits and Investments (continued)

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the Library's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged to the Library by the financial institution as security for repayment or by a 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 \$50 in undeposited cash on hand, which is included on the balance sheet of the Library as part of "Equity in Pooled Cash, Cash Equivalents and Investments."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments."

At year end, the carrying amount of the Library's deposits was \$913,972 and the bank balance was \$953,997. Of the bank balance, \$200,000 was covered by federal depository insurance and \$753,997 was uninsured and uncollateralized. 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. Deposits are insured by the Federal Deposit Insurance Cooperation; or collateralized by the financial institutions public entity risk pool.

As of December 31, 2005, the Library had the following investments:

	Carrying Value
Shares of GE stock (held by Library)	21,064
STAR Ohio	949,250
Total Investments	\$ 970,314

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

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005
(Continued)

Note 5 - Deposits and Investments (continued)

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee." Of the Library's total investments, 2.2% are GE Stock and 97.8% are STAR Ohio.

Note 6 – Capital Assets

The Library chooses not to report and depreciate capital assets resulting from cash transactions in the financial statements and elects not to report capital asset activity in the notes to the financial statements.

Note 7 - 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 2005, the Library contracted with several companies for various types of insurance coverage as follows:

Company	Type of Coverage	Coverage
Motorists Mutual	Commercial	\$ 2,330,000
	Property	
	General Liability	2,000,000
	Commercial Crime	
	Inland Marine	20,895
Republic-Franklin Insurance	Vehicle	505,000
	Errors and Omissions	500,000/1,500,000
Cincinnati Insurance Company	Library Officials	\$5,000/50,000

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.

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005
(Continued)

Note 8 - Defined Benefit Pension Plan

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

Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2005 was 13.55 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, 2005, 2004, and 2003 were \$75,251, \$71,554, and \$67,426 respectively; the full amount was contributed for 2005, 2004, and 2003. The Library had no contributions to the member-directed plan for 2005.

Note 9 - Postemployment 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 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 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

Mason Public Library
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005
(Continued)

Note 9 - Postemployment Benefits (continued)

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 Traditional Pension and Combined Plans had 376,109 active contributing participants as of December 31, 2005. The number of active contributing participants for both plans used in the December 31, 2004 actuarial valuation was 355,287. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 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.

In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets.

Note 10 – Leases

The Library leases a copier under noncancelable leases. The Library disbursed \$1,170 to pay lease costs for the year ended December 31, 2005. Future lease payments are as follows:

Year	Amount
2006	\$ 1560
2007	1560
2008	520
Total	<u>\$ 3,640</u>

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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*

Mason Public Library
Warren County
381 Old Stage Road
Waynesville, Ohio 45068

To the Board of Trustees:

We have audited the financial statements of the governmental activities and each major fund of Mason Public Library, Warren 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 December 18, 2007, wherein, we noted the Library uses a comprehensive accounting basis other than generally accepted accounting principles. We also noted the Library uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our audit procedures for expressing our 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.

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

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

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

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

We noted a matter that we reported to the Library's management in a separate letter dated December 18, 2007.

Compliance and Other Matters

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

We did note certain noncompliance or other matters that we reported to the Library's management in a separate letter dated December 18, 2007.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 18, 2007



Mary Taylor, CPA
Auditor of State

MASON PUBLIC LIBRARY

WARREN 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
JANUARY 10, 2008**