

THE HAWKINS COUNTY LIBRARY SYSTEM
Rogersville, Tennessee

ANNUAL FINANCIAL STATEMENTS
June 30, 2009

THE HAWKINS COUNTY LIBRARY SYSTEM

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DAVID M. ELLIS

Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

To The Library Board
The Hawkins County Library System
Rogersville, Tennessee

I have audited the accompanying financial statements of the governmental activities and each major fund of the Hawkins County Library System as of and for the year ended June 30, 2009, which collectively comprise the Hawkins County Library Systems' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hawkins County Library System's management. My responsibility is to express opinions on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurances about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, based on my audit, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Hawkins County Library System as of June 30, 2009, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consists principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hawkins County Library System's basic financial statements. The other supplementary information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "David M. Ellis". The signature is written in black ink and is positioned below the main body of text.

June 30, 2010

**THE HAWKINS COUNTY LIBRARY SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited) (Required Supplementary Information)
For The Year Ended June 30, 2009**

This discussion and analysis of the Hawkins County Library System's (i.e., the Library) financial performance provides an overview of the Library's financial activities for the year ended June 30, 2009. The intent of the discussion and analysis is to look at the Library's financial performance as a whole. This is the sixth year of reporting under Governmental Auditing Standards Board Statement No. 34.

Financial Highlights

- The Library's assets exceeded its liabilities by \$311,302 (net assets). Of this amount, \$85,920 represented unrestricted net assets.
- The Library's total net assets increased by \$2,245.
- The Library's governmental funds reported combined ending fund balances of \$175,186 this year, an increase of \$13,524.

Overview Of The Financial Statements

The financial statements are organized so the reader can understand the library as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Library's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the Library as a whole. These statements include the financial activities of the primary government and the Library currently does not hold any fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Library that are governmental in nature and those that are considered to be business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services. The Library does not currently have any business-type activities.

The Statement of Net Assets presents the financial condition of the governmental activities of the Library at year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program, or departments and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Library with certain limited exceptions. The comparisons of direct expenses with program revenues identify the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

With this report, capital assets are listed for the sixth year under GASB 34 for the Hawkins County Library System. These assets are comprised of furniture and equipment along with collections (library books) owned by the Library. The Library Director performs an inventory and evaluation of assets at year end.

Fund Financial Statements

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. There are three categories of funds: Governmental, Proprietary, and Fiduciary.

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

- Library Operating Fund - This fund is the general operating fund of the Library. It is used to account for all financial resources, except those required to be accounted for in another fund.
- Library Contingency/Grant Fund - This fund is used to accumulate funds set aside by the Library to fund future contingency and capital project items and to maintain control of items which have been restricted to its use by the donor or grantor, or by the Library Board.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The Library does not currently have any proprietary funds.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The Library does not currently hold any Fiduciary Funds.

Notes To Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Library's government-wide and fund financial statements.

Government-Wide Financial Analysis

Since this is the sixth year of implementation under Government Accounting Standards Board Statement No. 34, the following tables presents comparative financial information.

Summary of Net Assets

The following summarizes the net assets of the Hawkins County Library System at June 30, 2009 and 2008:

	<u>6/30/09</u>	<u>6/30/08</u>
-ASSETS-		
Cash In Banks	\$ 188,764	\$ 169,657
Receivables	0	0
Capital Assets, Net	<u>136,116</u>	<u>147,395</u>
Total Assets	324,880	317,052
-LIABILITIES-		
Accounts Payable/Accrued Expenses	9,558	4,210
Accrued Compensated Absences Due Within One Year	<u>4,020</u>	<u>0</u>
Total Liabilities	13,578	4,210
-NET ASSETS-		
Invested In Capital Assets	136,116	147,395
Restricted For Capital Projects/Grants	89,266	83,276
Unrestricted	<u>85,920</u>	<u>78,386</u>
Total Net Assets	<u>\$ 311,302</u>	<u>\$ 309,057</u>

Summary of Changes in Net Assets

The following is an analysis of the changes in net assets for the year ended June 30, 2009. Generally speaking, the Library's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Library or through external restrictions imposed by creditors, grantors or laws/regulations of other governments. A summary of the governmental activities are as shown on the following page:

REVENUE	6/30/09	6/30/08
County & City Government Contributions	\$ 263,120	\$ 262,120
Interest Income	2,791	2,000
Donations	6,480	21,552
Charges For Services	22,640	23,157
Grants	12,500	7,414
Total Revenue	<u>307,531</u>	<u>316,243</u>
EXPENSES		
Library Operations	<u>305,286</u>	<u>310,889</u>
Net Decrease In Assets	2,245	5,354
Net Assets, Beginning	309,057	303,703
Net Assets, Ending	\$ <u>311,302</u>	\$ <u>309,057</u>

Financial Analysis of Library Funds

As noted earlier in the report, the Library uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements.

Governmental Funds - The Library maintains two governmental funds being the Library Operating Fund and its Contingency/Grant Fund which accounts for funds set aside for future use and for revenues restricted as to its use by grantors or donors or by the Library Board.

For the year ending June 30, 2009, the Library's Operating Fund ended the year with a fund balance of \$85,920 which was a \$7,534 increase from the prior year restated balance. The Library Operating Funds' revenues were \$292,289 while expenditures and transfers totaled \$284,755, resulting in a \$7,534 positive change in fund balance.

The Contingency Grant Fund ended the year with a fund balance of \$95,499.

Capital Assets And Debt Administration

Capital assets are defined by the Library as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. The Library's improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset's life are not capitalized. An expanded and detailed presentation of capital assets may be seen in Note 3 of the Notes to Financial Statements.

The Library has no outstanding debt issues at June 30, 2009.

Economic Factors

The Hawkins County Library System is primarily supported by area local governments providing annual contributions to the Hawkins County Library System. This past year, approximately 83% of the total revenues were from these local governments being Hawkins County, the Towns' of Rogersville, Church Hill, and Surgoinsville, Tennessee. As these funds comprise the majority of revenues, the Library sets its budget based on the amount of funds appropriated each year by these local governments. There are no significant changes in the local government contribution to the Library system in the next fiscal year. However, if these local government contributions were reduced, they would have a significant impact on the operations of the Hawkins County Library System.

Requests For Information

This financial report is designed to provide a general overview of the Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Library Director of the Hawkins County Library System, 407 East Main Street, Rogersville, Tennessee 37857.

THE HAWKINS COUNTY LIBRARY SYSTEM
STATEMENT OF NET ASSETS
June 30, 2009

		Governmental Activities
-ASSETS-		
Cash In Banks	\$	93,265
Cash In Banks - Restricted		95,499
Capital Assets, Net		<u>136,116</u>
TOTAL ASSETS		324,880
 LIABILITIES		
Accounts Payable/Accrued Expenses		9,558
Accrued Compensated Absences Due Within One Year		<u>4,020</u>
TOTAL LIABILITIES		13,578
 NET ASSETS		
Investment In Capital Assets		136,116
Restricted For Capital Projects		89,266
Unrestricted		<u>85,920</u>
TOTAL NET ASSETS	\$	<u>311,302</u>

See Accompanying Notes To Basic Financial Statements.

**THE HAWKINS COUNTY LIBRARY SYSTEM
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2009**

<u>Function/Program</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Net (Expense) Revenue And Changes In Net Assets Governmental Activities</u>
Primary Government:					
Governmental Activities:					
Library	\$ 305,286	\$ 22,640	\$ 6,186	\$ 12,794	\$ (263,666)
General Revenues:					
Local Government Appropriations					263,120
Interest Income					2,791
Total General Revenues					<u>265,911</u>
Change In Net Assets					<u>2,245</u>
Net Assets - Beginning Of Year					<u>309,057</u>
Net Assets - End Of Year					<u>\$ 311,302</u>

See Accompanying Notes To Basic Financial Statements.

**THE HAWKINS COUNTY LIBRARY SYSTEM
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009**

	-GOVERNMENTAL FUNDS-		
	Operating Fund	Contingency/ Grant Fund	Total Governmental Funds
-ASSETS-			
Cash In Banks	\$ 82,774	\$ 10,872	\$ 93,646
Cash In Bank-Cert. Of Deposit	0	78,595	78,595
Petty Cash-Checking	10,491	0	10,491
Cash In Bank-Savings	0	6,032	6,032
TOTAL ASSETS	\$ 93,265	\$ 95,499	\$ 188,764
-LIABILITIES AND FUND EQUITY-			
Liabilities:			
Accounts Payable/Accrued Expenses	3,325	6,233	9,558
Accrued Compensated Absences - Current	4,020	0	4,020
Total Liabilities	7,345	6,233	13,578
Fund Equity:			
Reserved	0	89,266	89,266
Unreserved	85,920	0	85,920
Total Fund Equity	85,920	89,266	175,186
TOTAL LIABILITIES AND FUND EQUITY	\$ 93,265	\$ 95,499	\$ 188,764

See Accompanying Notes To Basic Financial Statements.

**HAWKINS COUNTY LIBRARY SYSTEM
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET ASSETS
June 30, 2009**

Total Governmental Fund Balances:		\$ 175,186
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:</p>		
Capital asset cost	\$ 1,156,774	
Capital asset accumulated depreciation	<u>(1,020,658)</u>	
		<u>136,116</u>
Total Net Assets - Governmental Activities		<u><u>\$ 311,302</u></u>

See Accompanying Notes To Basic Financial Statements.

**THE HAWKINS COUNTY LIBRARY SYSTEM
STATEMENT OF REVENUES AND EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For The Year Ended June 30, 2009**

	-GOVERNMENTAL FUNDS-		
	<u>Operating Fund</u>	<u>Contingency/ Grant Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Town Of Rogersville	\$ 107,000	\$ 0	\$ 107,000
Hawkins County	94,000	0	94,000
Town Of Church Hill	44,120	0	44,120
Town Of Surgoinsville	18,000	0	18,000
Charges For Services	22,640	0	22,640
Interest Income	343	2,448	2,791
Donations/Other	3,686	2,794	6,480
Grants	2,500	10,000	12,500
TOTAL REVENUES	292,289	15,242	307,531
EXPENDITURES			
Salaries/Benefits/Taxes	210,905	0	210,905
Plant & Operations/Insurance	15,088	0	15,088
Supplies/Postage/Story Hour	23,315	0	23,315
Books/Audiovisuals/Periodicals	24,484	0	24,484
Travel/Dues/Training	179	0	179
Professional Fees & Bonding	2,427	0	2,427
Automation/Supplies/Capital Outlay	8,357	9,252	17,609
TOTAL EXPENDITURES	284,755	9,252	294,007
Excess Of Revenues Over (Under) Expenditures	7,534	5,990	13,524
Other Financing Sources			
Operating Transfers	0	0	0
Net Change In Fund Balances	7,534	5,990	13,524
Fund Balances - July 1, 2008 (Restated)	78,386	83,276	161,662
Fund Balances - June 30, 2009	\$ 85,920	\$ 89,266	\$ 175,186

See Accompanying Notes To Basic Financial Statements.

**HAWKINS COUNTY LIBRARY SYSTEM
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
June 30, 2009**

Total Net Change In Fund Balances - Governmental Funds		\$ 13,524
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Current year depreciation expense	\$ (33,291)	
Capital assets reported as capital outlays in the governmental funds	22,012	
Net difference		(11,279)
Change in net assets of governmental activities		\$ 2,245

See Accompanying Notes To Basic Financial Statements.

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of The Hawkins County Library System conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Private-sector standards of accounting issued after November 30, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Description of Library's Operations

The Hawkins County Library System was established to maintain and operate public libraries in Hawkins County, Tennessee. The Library operates under the supervision and control of a Board. All activities over which the Library exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity. The Library has no potential component units which would be included in the reporting entity of the Hawkins County Library System.

B. Basis Of Presentation

The Library's basic financial statements consists of governmental-wide financial 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. For the most part, the effect of interfund activity has been removed from the statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net assets presents the financial condition of the governmental activities of the Library at year end. The statement of activities presents comparison between direct expenses and program revenues for each program or function of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, there, clearly identifiable to a particular function.. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Library, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 financial statements is on major funds. Each major fund is presented in a separate column.

C. 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. There are three categories of funds: governmental, proprietary, and fiduciary. For the year ending June 30, 2009, the Library had only governmental funds.

Governmental Funds - Governmental funds are those through which all governmental functions of the Library are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Library's major governmental funds:

- Library Operating Fund - This fund is the general operating fund of the Library. It is used to account for all financial resources, except those required to be accounted for in another fund.
- Library Contingency/Grant Fund - This fund is used to accumulate funds set aside by the Library Board to fund future items for capital projects, and any restricted grants received.

D. Measurement Focus

Government-Wide Financial Statements - The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Library are included on the statement of net assets.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Library, available means expected to be received within sixty days after year end.

Nonexchange transactions, in which the Library receives value without directly giving equal value in return, include grants and donations. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Library must provide local resources to be used for specified purpose; and expenditure requirements, in which the resources are provided to the Library on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Revenues susceptible to accrual are interest earnings, local government appropriations earned, and grants. Fines, penalties and other revenues are not susceptible to accrual because they are not generally measurable until received in cash.

Expenses/Expenditures - On the accrual basis, the expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation are not recognized in governmental funds.

F. Budgets and Budgetary Accounting

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

The Library director submits to the Board a proposed operating budget which includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the Statements of Revenue, Expenditures and Changes in Fund

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Balances. The Library Director budgets for the operating fund each year, and for the contingency/grant fund in the years when grants are earned or when expenditures are budgeted.

Budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The Library does not maintain a formalized encumbrance accounting system.

G. Cash and Cash Equivalents

For presentation on the financial statements, the Library's cash and cash equivalents consists solely of checking, savings and short-term certificates of deposit. The Library has no other types of investments. See Note 3 regarding cash in bank disclosures.

H. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". Interfund balances with governmental activities are eliminated on the government-wide statement of net assets. At June 30, 2009, there were no interfund receivables and payables.

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are defined by the Library as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year for furniture, equipment, and improvements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The collection of library books and materials are capitalized on an annual basis as one unit cost based on historical cost or estimated historical cost based on the average cost per book.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Furniture & Equipment	10 Years
Collections - Library Books and Audio/Visual Materials	10 Years

J. Compensated Absences

It is the policy of the library not to accrue for vacation since any compensated time off for the regular employees is earned on a fiscal year basis and must be taken by June 30th of each year

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

since no carryover is allowed. However, sick pay can be accumulated up to 100 hours per employee at June 30th which is subject to carryover. This has been accrued at June 30, 2009.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, and claims and judgments, that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year. At June 30, 2009, the Library had no long-term debt other than compensated absences for sick pay due within one year.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Library or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Library's policy is to use restricted net assets first if opportunities arise.

M. Governmental Fund Balance Reserves

The Library reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure.

N. Extraordinary And Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

O. Use Of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Hawkins County Library System to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses (expenditures) during the reporting period. Actual results could differ from those estimates.

P. Post Employment Benefits

The Library offers no post-employment benefits for employees in the form of retirement or health benefits.

NOTE 2 - CASH IN BANKS

The Hawkins County Library System has previously implemented GASB Statement No. 40, "Deposits And Investment Risk Disclosures", for the financial reporting of deposit and investment risks.

The Library has no formal policies with respect to deposits and investments; however, it is required to follow procedures allowed by applicable state laws. At June 30, 2009, the Library had complied with applicable state laws as all cash funds were held in local financial institutions in the form of demand deposits, savings accounts or certificates of deposit. Furthermore, the state requires that all deposits with financial institutions be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. Deposits must be covered by Federal Depository Insurance or the Tennessee Collateral Bank Pool, or by collateral held by the Library's agent in the Library's name, or by the Federal Reserve Bank acting as third party agents.

As of June 30, 2009, the carrying amount of the Library's deposits was \$188,764 and the respective bank balances totaled \$202,738. The difference between the two represented deposits in transit, outstanding checks, or other reconcilable items. As of June 30, 2009, the total bank balances of \$202,738 was covered by F.D.I.C. insurance and by collateralization of securities held by the Library's agent in the Library's name.

At June 30, 2009, the following accounts were restricted:

Grant Funds/Donations - Unexpended	\$ 9,093
Church Hill Building Fund	1,779
Building Fund	5,221
Memorial Fund	811
Certificates of Deposit	<u>78,595*</u>
Total	<u><u>\$ 95,499</u></u>

* Restricted for future capital projects.

(Continued)

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 171,048	\$ 0	\$ 0	\$ 171,048
Collections-Library Books	963,714	22,012	0	985,726
Subtotal	<u>1,134,762</u>	<u>22,012</u>	<u>0</u>	<u>1,156,774</u>
Less: Accumulated Depreciation For:				
Furniture and Equipment	137,346	12,359	0	149,705
Collections-Library Books	850,021	20,932	0	870,953
Subtotal	<u>987,367</u>	<u>33,291</u>	<u>0</u>	<u>1,020,658</u>
Governmental Activities Total Capital Assets - Net Of Depreciation	<u>\$ 147,395</u>	<u>\$ (11,279)</u>	<u>\$ 0</u>	<u>\$ 136,116</u>

Depreciation expense was charged to the Library program in the amount of \$33,291.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

The library receives a substantial amount of its support from local governments. A significant reduction in the level of support, if this were to occur, may have an effect on the library's programs and activities.

NOTE 5- RISK MANAGEMENT

The Hawkins County Library system manages any exposure to risk loss from property, contents, liability, and workmen's compensation injuries through the purchase of commercial insurance coverage. For the above, there have been no significant reductions in insurance coverage and there were no settlement amounts which exceeded insurance coverage for the current year or the three prior years.

NOTE 6 - CONTRIBUTED FACILITIES

The Library occupies, without charge, certain premises located in government owned buildings. The fair rental value of the premises is not reported as revenue nor has the expense been shown in the financial statements, as the fair market value was not determinable.

NOTE 7 - GRANT ACTIVITY

In the current year, the Library was awarded two federal grants passed through the Tennessee Department of Library and Archives. Grant # Z09217832 for \$2,500 was a Technology Grant, and Grant #GG-0927593 for \$7,500 was Jobs Training Grant. Those federal grants were awarded by the

NOTE 7 - GRANT ACTIVITY (Continued)

U.S. Institute of Museum & Library Services under C.F.D.A. #45.310. The grant period for the Technology Grant is April 1, 2009 through August 31, 2009. With respect to the Jobs Training Grant, the period is from June 1, 2009 through June 30, 2010. In addition, the Library received a state Community Enhancement Grant in the current year for \$2,500.

NOTE 8 - JOINT VENTURE

The Hawkins County Library System is funded by contributions from Hawkins County and the municipalities of Rogersville, Church Hill, and Surgoinsville. The Hawkins County Library Board is managed by seven members on the local board and two members of the Nolichucky Regional Library Board. Of the seven local board members, three are appointed by the Hawkins County Commission, and the municipalities of Rogersville, Church Hill, and Surgoinsville appoint one member each while one member at large is jointly appointed.

In the current year these governmental entities contributed the following amounts:

Hawkins County	\$	94,000
Rogersville		107,000
Church Hill		44,120
Surgoinsville		<u>18,000</u>
	\$	<u>263,120</u>

These governmental entities do not have an equity interest in the Hawkins County Library System.

NOTE 9 - OPERATING FUND - BUDGETED EXPENDITURES VERSES ACTUAL EXPENDITURES

For the year ended June 30, 2009, the Library adopted budget's for the operating fund and contingency/grant funds during the year. At June 30, 2009, total expenditures did not exceed budgeted expenditures for either fund. However, with respect to line item details on the operating fund, the following expenditures exceeded budgeted line item expenditures.

	<u>Final</u>		<u>Actual</u>	<u>(Over)</u>
	<u>Budget</u>			<u>Budget</u>
Salaries/Benefits/Tax	\$ 210,867	\$	210,905	\$ (38)
Supplies/Postage/Story Hour	\$ 22,500	\$	23,315	\$ (815)
Books	\$ 24,067	\$	24,484	\$ (417)

NOTE 10 - RESTATED GOVERNMENTAL FUND BALANCE

Fund balance for the operating fund was restated, July 1, 2008, to properly reflect the compensated absence accrual due within one year. The net effect of this restatement reduced the operating fund balance by \$3,785. There was no effect to the government-wide net assets as the amount had already been recognized.

NOTE 11 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 30, 2010, which is the date the financial statements were available to be issued.

THE HAWKINS COUNTY LIBRARY SYSTEM
OTHER SUPPLEMENTARY INFORMATION

**THE HAWKINS COUNTY LIBRARY SYSTEM
OPERATING FUND
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
For The Year Ended June 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Town Of Rogersville	\$ 107,000	\$ 107,000	\$ 107,000	\$ 0
Hawkins County	94,000	94,000	94,000	0
Town Of Church Hill	44,120	44,120	44,120	0
Town Of Surgoinsville	18,000	18,000	18,000	0
Charges For Services	0	22,500	22,640	140
Interest Income	0	0	343	343
Donations/Other	0	2,500	3,686	1,186
Grants	0	0	2,500	2,500
TOTAL REVENUES	<u>263,120</u>	<u>288,120</u>	<u>292,289</u>	<u>4,169</u>
EXPENDITURES				
Salaries/Benefits/Taxes	210,640	210,867	210,905	(38)
Plant & Operations	15,260	15,987	15,088	899
Supplies/Postage/Story Hour	0	22,500	23,315	(815)
Books/Audiovisuals/Periodicals/Other	24,000	24,067	24,484	(417)
Travel/Dues	1,225	1,364	179	1,185
Professional Fees	2,500	2,500	2,427	73
Automation/Supplies/Other	9,574	8,414	8,357	57
TOTAL EXPENDITURES	<u>263,199</u>	<u>285,699</u>	<u>284,755</u>	<u>944</u>
Excess Of Revenues Over (Under) Expenditures	(79)	2,421	7,534	5,113
Other Financing Sources				
Operating Transfers	0	(2,500)	0	2,500
Excess Of Revenues Over (Under) Expenditures & Other Financing Sources	(79)	(79)	7,534	7,613
Fund Balance - July 1, 2008 (Restated)	<u>78,386</u>	<u>78,386</u>	<u>78,386</u>	<u>0</u>
Fund Balance - June 30, 2009	<u>\$ 78,307</u>	<u>\$ 78,307</u>	<u>\$ 85,920</u>	<u>\$ 7,613</u>

See Independent Auditor's Report On Other Supplementary Information.

**THE HAWKINS COUNTY LIBRARY SYSTEM
CONTINGENCY/GRANT FUND
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
For The Year Ended June 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Interest Income	\$ 0	\$ 0	\$ 2,448	\$ 2,448
Donations	0	0	2,794	2,794
Grants	0	10,000	10,000	0
TOTAL REVENUES	<u>0</u>	<u>10,000</u>	<u>15,242</u>	<u>5,242</u>
EXPENDITURES - Automation				
	<u>0</u>	<u>12,500</u>	<u>9,252</u>	<u>3,248</u>
TOTAL EXPENDITURES	<u>0</u>	<u>12,500</u>	<u>9,252</u>	<u>3,248</u>
Excess Of Revenues Over (Under) Expenditures	0	(2,500)	5,990	8,490
Other Financing Sources				
Operating Transfers	<u>0</u>	<u>2,500</u>	<u>0</u>	<u>(2,500)</u>
Excess Of Revenues Over (Under) Expenditures & Other Financing Sources	0	0	5,990	5,990
Fund Balance - July 1, 2008	<u>83,276</u>	<u>83,276</u>	<u>83,276</u>	<u>0</u>
Fund Balance - June 30, 2009	<u><u>\$ 83,276</u></u>	<u><u>\$ 83,276</u></u>	<u><u>\$ 89,266</u></u>	<u><u>\$ 5,990</u></u>

See Independent Auditor's Report On Other Supplementary Information.

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
June 30, 2009

<u>GRANTOR AGENCY</u>	<u>FEDERAL CFDA #</u>	<u>PASS-THROUGH GRANTOR #</u>	<u>PROGRAM OR AWARD AMOUNT</u>	<u>BALANCE JULY 1, 2008</u>	<u>RECEIPTS</u>	<u>EXPENDITURES</u>	<u>(2) BALANCE 6-30-09</u>
-FEDERAL AWARDS-							
U.S. Institute of Museum & Library Services - Pass-Through TN Dept. Of Library & Archives							
Technology Grant	45.310	Z09217832	\$ 2,500	\$ 0	\$ 2,500	\$ 2,500	\$ 0
Job Training Grant	45.310	GG-0927593	\$ 7,500	0	7,500	3,258	4,242
TOTAL FEDERAL AWARDS				0	10,000	5,758	4,242
STATE FINANCIAL ASSISTANCE							
Community Enhancement	N/A	N/A	\$ 2,500	0	2,500	2,500	0
TOTAL STATE FINANCIAL ASSISTANCE				0	2,500	2,500	0
TOTAL FEDERAL AWARDS & STATE FINANCIAL ASSISTANCE				\$ 0	\$ 12,500	\$ 8,258	\$ 4,242

See Independent Auditor's Report On Other Supplementary Information.

DAVID M. ELLIS

Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To The Library Board
Rogersville, Tennessee

I have audited the financial statements of the governmental activities and each major fund of the Hawkins County Library System, as of and for the year ended June 30, 2009, and have issued my report thereon dated June 30, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Hawkins County Library System's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hawkins County Library System's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Hawkins County Library System's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Hawkins County Library System's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These are described in the accompanying schedule of findings and recommendations as item 7.01.

The Hawkins County Library System's response to the findings identified in my audit is described in the accompanying schedule of findings and recommendations. I did not audit the Hawkins County Library System's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the Board of the Hawkins County Library System, management, Comptroller of the Treasury, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



June 30, 2010

**THE HAWKINS COUNTY LIBRARY SYSTEM
FINDINGS AND RECOMMENDATIONS
For The Year Ended June 30, 2009**

PRIOR AND CURRENT YEAR FINDING:

COMPLIANCE #07.01- THREE DAY DEPOSIT RULE

Deposit not made within three days:

Condition: On several occasions, it was noted the System did not deposit fines or miscellaneous fees to the bank within three days of collection.

Criteria: Tennessee Code Annotated 5-8-207 requires:

“Every county official handling public funds shall be required to maintain an official bank account in a bank or banks within this state, and shall, within three days after the receipt by such county official of any public funds, deposit the funds to the credit of such county official’s official bank account, or bank accounts.”

Effect: Funds could be misplaced when not deposited timely.

Recommendation: The System should deposit funds received as soon as practical but no later than three days after receipt.

Management’s Comments: Efforts will be made to insure all funds are deposited within three days of receipt.