

MORRISTOWN-HAMBLEEN LIBRARY

FINANCIAL STATEMENTS

Year Ended June 30, 2010

MORRISTOWN-HAMBLÉN LIBRARY
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees and Management
Morristown-Hamblen Library
Morristown, Tennessee

We have audited the statement of net assets, governmental fund balance sheet, statement of activities, and governmental fund revenues, expenditures, and changes in fund balance of Morristown-Hamblen Library, Morristown, Tennessee, as of and for the year ended June 30, 2010. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Morristown-Hamblen Library as of June 30, 2010, and the respective changes in financial position and fund balance for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010, on our consideration of Morristown-Hamblen Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Morristown-Hamblen Library has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Purkey, Carter, Compton, Swann & Carter, PLLC

November 19, 2010

MORRISTOWN-HAMBLEEN LIBRARY
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2010

	<u>General Fund</u>	<u>Adjustments (Note D)</u>	<u>Statement of Net Assets</u>
Assets			
Cash, primarily interest bearing	\$ 91,442	\$ -	\$ 91,442
Promises to give	4,360	-	4,360
Land	-	185,000	185,000
Other capital assets, net of accumulated depreciation	<u>-</u>	<u>1,922,684</u>	<u>1,922,684</u>
Total Assets	<u>\$ 95,802</u>	<u>\$ 2,107,684</u>	<u>\$ 2,203,486</u>
Liabilities			
Accounts payable	\$ 10,051	\$ -	\$ 10,051
Wages payable	<u>2,574</u>	<u>-</u>	<u>2,574</u>
Total Liabilities	12,625	-	12,625
Fund Balance/Net Assets			
Fund Balance			
Reserved	29,898	(29,898)	-
Unreserved	<u>53,279</u>	<u>(53,279)</u>	<u>-</u>
Total Fund Balance	83,177	(83,177)	-
Net Assets			
Invested in capital assets	-	2,107,684	2,107,684
Restricted	-	29,898	29,898
Unrestricted	<u>-</u>	<u>53,279</u>	<u>53,279</u>
Total Net Assets	<u>-</u>	<u>2,190,861</u>	<u>2,190,861</u>
Total Liabilities and Fund Balance/Net Assets	<u>\$ 95,802</u>	<u>\$ 2,107,684</u>	<u>\$ 2,203,486</u>

MORRISTOWN-HAMBLEEN LIBRARY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2010

	General Fund	Adjustments (Note D)	Statement of Activities
Revenues			
Local government appropriations:			
Operations	\$ 472,000	\$ -	\$ 472,000
Capital improvements	1,807	-	1,807
State and other grants	22,276	-	22,276
Fines and charges	43,453	-	43,453
Gifts and memorials	41,240	-	41,240
Interest	<u>757</u>	<u>-</u>	<u>757</u>
 Total Revenues	 581,533	 -	 581,533
Expenditures			
Library services			
Labor	292,274	-	292,274
Labor benefits	83,471	-	83,471
Periodicals	3,932	-	3,932
Depreciation	-	166,292	166,292
Utilities	30,784	-	30,784
Repairs and maintenance	29,324	-	29,324
Supplies	28,340	-	28,340
Insurance	9,023	-	9,023
Telephone and internet	3,493	-	3,493
Professional services	5,000	-	5,000
Travel and dues	1,591	-	1,591
Equipment rental	1,620	-	1,620
Miscellaneous	4,580	-	4,580
Capital outlay			
Building and equipment	21,536	(21,536)	-
Circulation materials	<u>70,253</u>	<u>(70,253)</u>	<u>-</u>
 Total Expenditures	 <u>585,221</u>	 <u>74,503</u>	 <u>659,724</u>
 Excess (Deficiency) of Revenue Over Expenditures/Net Change in Fund Balance	 (3,688)	 3,688	 -
Change in Net Assets	-	(78,191)	(78,191)
Fund Balance/Net Assets			
Beginning of Year	<u>86,865</u>	<u>2,182,187</u>	<u>2,269,052</u>
End of Year	<u>\$ 83,177</u>	<u>\$ 2,107,684</u>	<u>\$ 2,190,861</u>

MORRISTOWN-HAMBLLEN LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements present the activities of Morristown-Hamblen Library. The Morristown-Hamblen Library is a joint venture of two equal participants, the City of Morristown and Hamblen County, Tennessee, created to provide public library service to the general public. The Board of Trustees of Morristown-Hamblen Library (the Library) consists of nine members of which the Hamblen County Commission appoints four members, the City of Morristown appoints three members, and the remaining two members are members of the Regional Library Board. The Library's operating budget is adopted and controlled by its Board of Directors without requiring the participants' approval. However, the participants have indirect control of the budget through the amount of annual appropriations.

Basis of Presentation

Government-wide Statements:

The statement of net assets and the statement of activities display information about the Library and its overall financial activities.

Fund Financial Statements:

The fund financial statements provide information about the Library's funds. The emphasis of fund financial statements is on major funds, each displayed in a separate column. The operations of the Library are accounted for in one type of governmental fund, the General Fund, which is the general operating fund of the Library. It is used to account for the acquisition, use, and balances of the Library's expendable financial resources and the related liabilities.

Measurement Focus, Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures generally are recorded when the liability is incurred.

Capital Assets

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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their estimated fair value at the date of donation. The Library maintains a capitalization threshold of \$250. The Library does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add

MORRISTOWN-HAMBLEN LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

to the value of the asset or materially extend the asset's life are not. Capital assets are depreciated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 60 years. Books and other circulation materials with an estimated life greater than one year are capitalized and depreciated using a group depreciation method with lives ranging from 3 to 7 years.

Reservations of Fund Balances

The Library records reservations for portions of fund equity which are limited for specific future use. If restricted and unrestricted assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances, if any, of borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are external restrictions placed on their use by donors or grantors.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contract Labor

Labor for Library personnel is contracted with Hamblen County, Tennessee. Appropriate labor costs, payroll taxes, benefits, etc. are paid by the County and reimbursed by the Library.

Compensated Absences

Personnel of the Library are entitled to paid vacation depending on classification and length of service. At least one half of annual leave must be used each fiscal year with remaining unused time converted to sick leave. Vacation time may not be accumulated and carried forward to the next fiscal year. Accumulated sick leave has no value except for the purpose granted and in the event of separation, all unused sick leave will be forfeited.

Deposit and Investment Policies

Morristown-Hamblen Library follows state and county guidelines mandating collateralized or insured accounts for deposits and investments. The Library is included in Hamblen County government's contract with local financial institutions which requires that the institution be a participant in the State of Tennessee Bank Collateral Pool.

Subsequent Events

Morristown-Hamblen Library evaluated subsequent events through November 19, 2010, the date the financial statements were available to be issued.

MORRISTOWN-HAMBLEN LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

NOTE B – CAPITAL ASSETS

Changes in fixed assets for year ended June 30, 2010, were as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 185,000	\$ -	\$ -	\$ 185,000
Capital assets being depreciated:				
Building and improvements	1,940,284	-	-	1,940,284
Circulation materials	1,096,674	70,253	59,740	1,107,187
Furniture and equipment	<u>361,582</u>	<u>21,536</u>	<u>-</u>	<u>383,118</u>
Total capital assets being depreciated	3,398,540	91,789	59,740	3,430,589
Less accumulated depreciation for:				
Buildings and improvements	336,464	69,102	-	405,566
Circulation materials	865,537	72,756	59,740	878,553
Furniture and equipment	<u>199,352</u>	<u>24,434</u>	<u>-</u>	<u>223,786</u>
Total accumulated depreciation	<u>1,401,353</u>	<u>166,292</u>	<u>59,740</u>	<u>1,507,905</u>
Total capital assets being depreciated, net	<u>1,997,187</u>	<u>(74,503)</u>	<u>-</u>	<u>1,922,684</u>
Capital assets, net	<u>\$ 2,182,187</u>	<u>\$ (74,503)</u>	<u>\$ -</u>	<u>\$ 2,107,684</u>

NOTE C – RISK MANAGEMENT

Morristown-Hamblen Library is exposed to various risk of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to personnel and natural disasters. The Library purchases commercial insurance for all of these risks of loss. Settled claims have not exceeded this commercial coverage in any of the last three fiscal years.

NOTE D – EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET ASSETS AND BETWEEN GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND THE STATEMENT OF ACTIVITIES

The Library's unreserved fund balance and net change in fund balance differ from net assets and change in net assets primarily as a result of the long-term economic focus of the statement of net assets and the statement of activities versus the current financial resources focus of governmental funds.

MORRISTOWN-HAMBLEEN LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

When capital assets are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Library as a whole.

Reserved fund balance	\$ 29,898
Unreserved fund balance	53,279
Cost of capital assets	3,615,589
Accumulated depreciation	<u>(1,507,905)</u>
 Total Net Assets	 <u>\$ 2,190,861</u>

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives, and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Excess (deficiency) of revenues over expenditures	\$ (3,688)
Capital outlay:	
Building and equipment	21,536
Circulation materials	70,253
Depreciation expense	<u>(166,292)</u>
 Change in net assets	 <u>\$ (78,191)</u>

NOTE E – RESERVED FUND BALANCE/RESTRICTED NET ASSETS

The reserved fund balance and restricted net assets of \$29,898 at June 30, 2010, consisted of the following:

Cash restricted for purchase of ILS circulation system	\$ 10,700
Cash restricted for renovation	11,476
Cash and promises restricted for purchase of library equipment and services	<u>7,722</u>
	<u>\$ 29,898</u>

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND INTERNAL CONTROL

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

To the Board of Trustees and Management
Morristown-Hamblen Library
Morristown, Tennessee

We have audited the statement of net assets, governmental fund balance sheet, statement of activities, and governmental fund revenues, expenditures, and changes in fund balance of Morristown-Hamblen Library, Morristown, Tennessee, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 19, 2010. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morristown-Hamblen Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library'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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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.

Our 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Lack of Control over the Financial Reporting Process

Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of the statement of net assets, governmental fund balance sheet, statement of activities, and governmental fund revenues, expenditures, and changes in fund balance, including the notes to the financial statements in conformity with U.S. generally accepted accounting principles. Statement on Auditing Standards No. 115 sets the standard for management to possess the skills and knowledge necessary to apply generally accepted accounting principles in recording the organization's financial transactions or preparing its financial statements. Lacking these skills and knowledge, as part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance. This deficiency existed and was communicated to management in the prior year as well.

Management's Response

With respect to the lack of control over the financial reporting process, the management of Morristown-Hamblen Library believes that the cost of correcting this significant deficiency would exceed the benefits to be derived from doing so.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morristown-Hamblen Library's statement of net assets, governmental fund balance sheet, statement of activities, and governmental fund revenues, expenditures, and changes in fund balance are free of material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Morristown-Hamblen Library's response to the finding identified in our audit is described above. We did not audit Morristown-Hamblen Library's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of trustees, management, local government, the Comptroller of the Treasury, State of Tennessee Division of County Audit, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Purkey, Carter, Compton, Swann & Carter, PLLC

November 19, 2010