

JACKSON-MADISON COUNTY LIBRARY

JACKSON, TENNESSEE

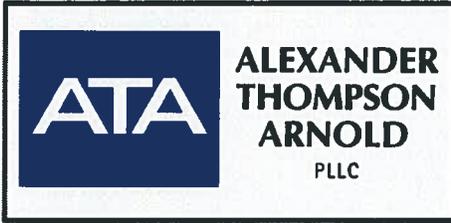
**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2010

JACKSON-MADISON COUNTY LIBRARY
FINANCIAL STATEMENTS & SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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Independent Auditor's Report

Board of Trustees
Jackson-Madison County Library
Jackson, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund information of the Jackson-Madison County Library, Jackson, Tennessee (the Library) as of and for the year ended June 30, 2010, 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 *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 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 opinions.

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 funds of the Jackson-Madison County Library as of June 30, 2010, and the respective changes in financial position and the budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Library will continue as a going concern. As discussed in Note 14 to the financial statements, the Library has incurred decreases in net assets and the uncertain conditions regarding its retirement plan. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2010, on our consideration of the 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

Dyersburg, TN
Henderson, TN
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Martin, TN
McKenzie, TN

Milan, TN
Murray, KY
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reporting and compliance and the results of the testing, and not to provide an opinion on the 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and schedule of funding progress on pages 3 through 5 and page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jackson-Madison County Library's basic financial statements. The detailed schedule of revenue, expenditures, and changes in fund balance is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The schedule of officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Certified Public Accountants

Jackson, Tennessee
December 10, 2010

Management Discussion and Analysis **FY 2009-2010**

As management of the Jackson - Madison County Library (the Library), the board of trustees offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended June 30, 2010. All amounts, unless otherwise indicated, are expressed in actual dollars. A comparative analysis of key elements of total governmental funds has been provided.

FINANCIAL HIGHLIGHTS

The board of trustees believes the Library's financial condition is stable for this fiscal year. The financial condition of the Library in the next fiscal year could weaken depending on the budget appropriations provided by the City of Jackson and Madison County for the obligation to the Tennessee Retirement Consolidation System (as noted below). The Library is still within its financial policies and guidelines set by the board and management. The following are key financial highlights.

- Total assets at year-end were \$518 thousand and liabilities were \$214 thousand.
- Operating revenues were approximately \$1.03 million, while operating expenses were \$1.13 million which resulted in a decrease in net assets of approximately \$106 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the Library's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Library's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements are made up of three sections: 1) the financial section, 2) the supplementary section, and 3) the internal control and compliance section. The financial section includes the independent auditor's report, the MD&A, and the financial statements with accompanying notes. The supplementary section includes other information of the detailed schedule of revenues, expenditures, and changes in fund balance and the schedule of officials. The internal control and compliance section includes the report on internal control and compliance and the schedule of findings and responses.

REQUIRED FINANCIAL STATEMENTS

Due to the Library being composed of only two governmental funds, a consolidated format has been used to present the fund statements and the government-wide statements with the reconciliation included as an additional column. The following statements are included in the financial statements of the Library:

The Statement of Net Assets and Governmental Funds Balance Sheet includes all of the Library's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Library's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure, and assessing the liquidity and financial flexibility of the Library.

The Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance presents the results of the business activities over the course of the fiscal year and information as to how the net assets and fund balances changed during the year. All changes in net assets and fund balances are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the Library's operations and can be used to determine whether the Library has successfully recovered all of its costs. This statement also measures the Library's profitability and credit worthiness.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Library's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets - As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Library, the assets exceeded liabilities by \$304 thousand. A majority of the Library's net assets (96%) reflects its investment in capital assets (e.g., books, materials, and equipment).

CONDENSED STATEMENT OF NET ASSETS		
	June 30, 2010	June 30, 2009
Current and other assets	\$ 20,591	\$ 18,746
Capital assets	497,155	473,662
Total assets	\$ 517,746	\$ 492,408
Current liabilities	\$ 213,864	\$ -
Invested in capital assets	\$ 497,155	\$ 473,662
Restricted for permanent fund	11,000	11,000
Unrestricted	(204,273)	7,746
Total net assets	\$ 303,882	\$ 492,408

Statement of Activities – Expenses in the governmental activities column exceeded revenues by \$124 thousand.

CONDENSED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS

	June 30, 2010	June 30, 2009
Operating revenues	\$ 1,031,986	\$ 1,025,907
Operating expenditures	1,156,446	1,141,787
Change in net assets	(124,460)	(115,880)
Beginning net assets	492,408	608,288
Prior period adjustment	(64,066)	-
Ending net assets	\$ 303,882	\$ 492,408

COMMENTS ON FUND FINANCIAL STATEMENTS

The Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

Governmental funds – The focus of the Library's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Library's financing requirements.

In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Revenue and other financing sources in the general fund increased from last year by approximately \$6 thousand. The most significant change in revenues and other financing sources in the general fund was:

- A \$5 thousand increase in city/county capital expenditure funding.

Expenditures and other financing uses in the general fund increased from last year by approximately \$100 thousand. The most significant changes in expenditures and other financing uses in the general fund were due to the following net affects of these expenses changing:

- TCRS retirement expense increased by \$107 thousand
- Circulation materials decreased by \$4 thousand
- General expenses decreased by \$3 thousand

A budget comparison statement has been provided to demonstrate compliance with the budget. There was one significant variance from the budget to the actual amounts this year in the general expenses, which was the TCRS retirement expense for \$107.

CAPITAL ASSET ADMINISTRATION

Capital Assets - At the end of the fiscal year, the Library had invested \$497 thousand in a variety of capital assets.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Library has a liability of \$213,864 for the TCRS retirement plan. The City of Jackson and Madison County have agreed to fund this obligation for the fiscal year ending June 30, 2011. For the fiscal year ending June 30, 2012, the Library Board will request the City of Jackson and Madison County to increase appropriations to cover this expense. If the appropriations are not increased, then the Library Board may decrease the amount provided to LSSI for management and operation of the Library to meet the TCRS obligations.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Library's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in 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 Jackson-Madison County Library; 433 East Lafayette Street; Jackson, Tennessee 38301.

BASIC FINANCIAL STATEMENTS

JACKSON-MADISON COUNTY LIBRARY
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2010

	<u>General Fund</u>	<u>Permanent Fund</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Assets</u>
Assets					
Cash on deposit	\$ 5,373	\$ 15,118	\$ 20,491	\$ -	\$ 20,491
Cash on hand	100	-	100	-	100
Capital assets (less accumulated depreciation)					
Books and materials	-	-	-	442,822	442,822
Equipment	-	-	-	54,333	54,333
Total Assets	<u>\$ 5,473</u>	<u>\$ 15,118</u>	<u>\$ 20,591</u>	<u>497,155</u>	<u>517,746</u>
Liabilities					
TCRS Liability	\$ 213,864	\$ -	\$ 213,864	-	213,864
Fund Balances/Net Assets					
Fund Balances					
Reserved for:					
Permanent Fund	-	15,118	15,118	(15,118)	-
Unreserved, undesignated, reported in					
General Fund	(208,391)	-	(208,391)	208,391	-
Total Fund Balances	(208,391)	15,118	(193,273)	193,273	-
Total Fund Balances	<u>\$ 5,473</u>	<u>\$ 15,118</u>	<u>\$ 20,591</u>		
Net Assets					
Invested in capital assets				497,155	497,155
Restricted for permanent fund				15,118	15,118
Unrestricted				(208,391)	(208,391)
Total Net Assets				<u>\$ 303,882</u>	<u>\$ 303,882</u>

The accompanying notes are an integral part of the financial statements.

JACKSON-MADISON COUNTY LIBRARY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>	<u>Permanent Fund</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Activities</u>
Revenue					
Jackson-Madison County					
Joint appropriation	\$ 963,894	\$ -	\$ 963,894	\$ -	\$ 963,894
Jackson-Madison County: Other	10,406	-	10,406	-	10,406
Other revenue	55,861	798	56,659	-	56,659
Gifts	<u>1,027</u>	<u>-</u>	<u>1,027</u>	<u>-</u>	<u>1,027</u>
Total Revenue	<u>1,031,188</u>	<u>798</u>	<u>1,031,986</u>	<u>-</u>	<u>1,031,986</u>
Expenditures					
Building and grounds	10,560	-	10,560	-	10,560
General expenses	12,288	-	12,288	-	12,288
Library management	1,007,293	-	1,007,293	(140,968)	866,325
TCRS retirement expense	106,932	-	106,932	-	106,932
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>160,341</u>	<u>160,341</u>
Total Expenditures	<u>1,137,073</u>	<u>-</u>	<u>1,137,073</u>	<u>19,373</u>	<u>1,156,446</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>(105,885)</u>	<u>798</u>	<u>(105,087)</u>	<u>(19,373)</u>	<u>(124,460)</u>
Fund Balance/Net Assets					
Beginning of the year	4,426	14,320	18,746	473,662	492,408
Prior period adjustment	<u>(106,932)</u>	<u>-</u>	<u>(106,932)</u>	<u>42,866</u>	<u>(64,066)</u>
Restated beginning of the year	<u>(102,506)</u>	<u>14,320</u>	<u>(88,186)</u>	<u>516,528</u>	<u>428,342</u>
End of the year	<u>\$ (208,391)</u>	<u>\$ 15,118</u>	<u>\$ (193,273)</u>	<u>\$ 497,155</u>	<u>\$ 303,882</u>

The accompanying notes are an integral part of the financial statements.

JACKSON-MADISON COUNTY LIBRARY
STATEMENT OF BUDGETARY COMPARISON-MAJOR FUND
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Budget Original	Budget Amended	Actual	Variance Over (Under)
Revenue				
City/County joint appropriation	\$ 963,894	\$ 963,894	\$ 963,894	\$ -
City/County capital expenditures	-	10,406	10,406	-
Other revenue	53,500	52,061	52,061	-
Summer reading program	3,800	3,800	3,800	-
Special gifts account	-	1,027	1,027	-
Total Revenue	<u>1,021,194</u>	<u>1,031,188</u>	<u>1,031,188</u>	<u>-</u>
Expenditures				
Accounting	6,000	5,992	5,992	-
Insurance	2,100	2,025	2,025	-
Credit card fees	2,000	472	472	-
Summer reading program	3,800	3,612	3,612	-
Capital expenditures	20,421	10,747	10,747	-
TCRS retirement expense	-	-	106,932	106,932
Library Management	1,007,294	1,007,293	1,007,293	-
Total Expenditures	<u>1,041,615</u>	<u>1,030,141</u>	<u>1,137,073</u>	<u>106,932</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>\$ (20,421)</u>	<u>\$ 1,047</u>	<u>(105,885)</u>	<u>\$ (106,932)</u>
FUND BALANCE, JULY 1			4,426	
PRIOR PERIOD ADJUSTMENT			<u>(106,932)</u>	
FUND BALANCE RESTATED JULY 1			<u>(102,506)</u>	
FUND BALANCE, JUNE 30			<u>\$ (208,391)</u>	

The accompanying notes are an integral part of the financial statements.

JACKSON-MADISON COUNTY LIBRARY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1 - ORGANIZATION

The Jackson-Madison County Library (Library) is jointly funded by the City of Jackson, Tennessee, and the County of Madison, Tennessee. There are no other governmental units which are considered component units of the Library.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The Library operates under a Board of Trustees form of government and provides the services of a public Library.

The Library's financial statements have been prepared in conformity with accounting principles generally accepted as set forth in the pronouncements of the *Governmental Accounting Standards Board (GASB)*. The following is a summary of the more significant accounting policies.

A. Reporting Entity:

The funds related to the Library included in this report are controlled by the Library's Board of Trustees.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statements of net assets and the statement of changes in net assets) report information on all of the operating activities of the library.

The statement of activities demonstrates the degree to which the direct expenses of the given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Separate financial statements are provided for governmental funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

JACKSON-MADISON COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont.)

JUNE 30, 2010

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont.)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within thirty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Library reports the following governmental funds:

The general fund is the library's primary operating fund. It accounts for all financial resources of the library, except those required to be accounted for in another fund.

The permanent fund is used to account for principal amounts received and related interest income, which may be used to provide genealogical resources to the patrons of the library. The Library's permanent fund is the Endowment fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand and demand deposits. All interest earned is allocated to the source from which the cash originated.

JACKSON-MADISON COUNTY LIBRARY
 NOTES TO FINANCIAL STATEMENTS (Cont.)
 JUNE 30, 2010

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

Capital Assets

Capital assets, which include equipment and furniture, are included in the government-wide financial statements. The Library land and building are titled to the City of Jackson, and therefore are not included in the Library's capital assets. Capital assets are defined by the Board as assets with an initial, individual (or group combined) cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Books are grouped by category, and depreciated by group. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the Library are depreciated using the straight line method over the following useful lives:

Books and materials	5 - 20 years
Furniture and fixtures	5 - 15 years
Machinery and equipment	5 - 20 years

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities.

In the fund financial statements, governmental funds show debt payments as current expenditures.

Fund Equity

In the fund financial statements, the governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Library elects to use restricted assets before unrestricted assets when the situation arises where either can be used.

JACKSON-MADISON COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont.)

JUNE 30, 2010

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

Adjustments to the balance sheet of governmental funds to the statement of net assets includes the following items:

When capital assets (books, materials, furniture and equipment) that are to be used in governmental activities are purchased, the costs of those assets are reported as expenditures in the governmental funds. However, the statement of net assets includes those capital assets among the assets of the Library as a whole.

Cost of capital assets	\$ 2,238,484
Accumulated depreciation	<u>(1,741,329)</u>
	<u>\$ 497,155</u>

B. Explanation of Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities

The net change in fund balances of governmental funds differs from the change in net assets for governmental activities. The difference arises primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds.

When capital assets that are to be used in governmental activities are purchased, 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.

Books and materials purchased	\$ (140,967)
Depreciation expense	<u>160,340</u>
Difference	<u>\$ 19,373</u>

NOTE 4 – BUDGETS AND BUDGETARY ACCOUNTING

The Board of Trustees approves the annual budget, which is adopted on a basis consistent with generally accepted accounting principles. This budget is approved by line item and used by management to analyze financial activity for the fiscal year ended June 30. Their primary funding source is appropriations from the local government, which are for twelve-month periods that coincide with the fiscal year. Due to the Library's dependency on local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding. During the fiscal year ending June 30, 2010, the Board of Trustees did not budget two general expense amounts, which caused the actual expenditures to exceed the budgeted amount.

JACKSON-MADISON COUNTY LIBRARY

NOTES TO FINANCIAL STATEMENTS (Cont.)

JUNE 30, 2010

NOTE 5 -- DEPOSITS*Custodial Credit Risk*

The Library's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 2. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits.

The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Library's agent in the Library's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the Library to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2010 bank deposits were not in excess of collateralized or insured amounts.

NOTE 6 - ENDOWMENT FUND - PERMANENT FUND

The Library has received contributions that have been restricted by the donor. The principal is required to be invested. Only the interest earned can be used by the Library and it must be spent only on genealogical materials. This year, the funds were spent on books, microfilm and online databases.

Principal contributions received	\$ 11,000
Total interest earned since contribution less materials purchased	<u>4,118</u>
Total contributions	<u>\$ 15,118</u>

NOTE 7 - RISK MANAGEMENT

The Library is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Library decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability, auto liability, errors and omissions and auto physical damage coverage. The Library joined the Tennessee Municipal League Risk Pool (Pool), which is a public entity risk pool established in 1979 by the Tennessee Municipal League. The pool is a cooperative risk sharing arrangement that works in many ways like a traditional insurer. The Library pays annual premiums to the Pool for its general liability, auto liability, real and personal property damage, workman's compensation and errors and omissions policies. The Pool provides the specified coverage and pays all claims from its member premiums charged or through its reinsurance policies. The Library's premiums are calculated based on its prior claims history.

It is the policy of the Library to purchase commercial insurance for the risks of employee dishonesty and excess liability. Settled claims have not exceeded this commercial coverage or the coverage provided by the Pool in any of the past three years. There have been no significant reductions in coverage.

JACKSON-MADISON COUNTY LIBRARY
NOTES TO FINANCIAL STATEMENTS (Cont.)

JUNE 30, 2010

NOTE 8 - FOOTNOTE DISCLOSURE

Plan Description

Employees of the Library are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Library participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

Effective November 1, 2006, the Library is no longer eligible to participate in TCRS. The employees of the Library are not eligible to continue to accrue salary and service credit in TCRS since the Library is a private entity and therefore not eligible for participation. The Library is responsible to continue to fund the retirement cost related to salary and service credit earned by employees up until November 1, 2006.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

The Library is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010 was \$8,911 per month. The contribution requirement of plan members is set by state statute. The contribution requirement for the Library is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2010, the Library did not pay the annual pension cost of \$106,932 to TCRS. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The Library's unfunded actuarial accrued liability is being amortized as a level

JACKSON-MADISON COUNTY LIBRARY

NOTES TO FINANCIAL STATEMENTS (Cont.)

JUNE 30, 2010

NOTE 8- FOOTNOTE DISCLOSURE (Cont.)**Annual Pension Cost (Cont.)**

dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 13 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost(APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$106,932	0%	\$106,932
June 30, 2009	\$106,932	0%	\$106,932
June 30, 2008	\$0	100%	\$0

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 41.02% percent funded. The actuarial accrued liability for benefits was \$2.04 million, and the actuarial value of assets was \$0.84 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.21 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.00 million, and the ratio of the UAAL to the covered payroll was 0.00%percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
July 01, 2009	\$838	\$2,044	\$1,206	41.02%	\$0	0.00%
July 01, 2007	\$1,262	\$2,144	\$882	58.86%	\$0	0.00%

JACKSON-MADISON COUNTY LIBRARY

NOTES TO FINANCIAL STATEMENTS (Cont.)

JUNE 30, 2010

NOTE 9 - CAPITAL ASSETS

Fixed assets acquired in the General Fund are expensed when purchased. The assets on the government-wide financial statements include only those that have met the Board of Trustee's capitalization policy. The City of Jackson and Madison County budget for Capital Outlay by the library, and pays for the items so budgeted. LSSI also pays for a portion of these assets; in their contract, they will spend 20% of the library's budget in materials acquisition. Both City and County assets and LSSI assets are included in the Capital Asset account, if they meet the criteria. The library land and building are titled to the City of Jackson and, therefore, are not in the Library's capital asset account. Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	PPA (See Note 13)	Beginning Balance Restated	Additions	Ending Balance
Capital assets, being depreciated:					
Books and materials	\$ 1,787,260	\$ -	\$ 1,787,260	\$ 140,967	\$ 1,928,227
Equipment	<u>310,257</u>	<u>-</u>	<u>310,257</u>	<u>-</u>	<u>310,257</u>
Total capital assets	2,097,517	-	2,097,517	140,967	2,238,484
Less accumulated depreciation for:					
Books and materials	1,382,264	(42,866)	1,339,398	146,007	1,485,405
Equipment	<u>241,591</u>	<u>-</u>	<u>241,591</u>	<u>14,333</u>	<u>255,924</u>
Total depreciation	<u>1,623,855</u>	<u>(42,866)</u>	<u>1,580,989</u>	<u>160,340</u>	<u>1,741,329</u>
Governmental capital assets, net	<u>\$ 473,662</u>	<u>\$ 42,866</u>	<u>\$ 516,528</u>	<u>\$ (19,373)</u>	<u>\$ 497,155</u>

NOTE 10 – LIBRARY SYSTEMS & SERVICES, LLC (LSSI)**A. Definition and Agreement of LSSI**

LSSI is a corporation dedicated to providing library-oriented automated systems and manual library support services. The Library entered in to an agreement on October 9, 2006 with LSSI, with Services to commence on November 1, 2006. Services include all library management services, staffing, and ancillary services. The Jackson-Madison County Library Board (JMCLB) shall make available to LSSI all properties, facilities, equipment, collections, supplies, records, files and data used or useful in the operation of the Library. JMCLB reserves all ownership rights upon the termination or expiration of the Agreement.

B. Reimbursement For Expenses

LSSI shall be responsible for purchasing all materials, services, labor and any other items related to the annual budget for the Library. This responsibility of LSSI shall include handling all invoices and accounts payable associated with such expenditures. LSSI shall be reimbursed for expenditures on behalf of the Library only if such expenses have been authorized properly.

C. Asset Ownership

All property purchased by LSSI relating to the operation of the Library with funds provided by the JMCLB shall be deemed to have been purchased by LSSI as agent for the JMCLB, and title to same shall be vested in the JMCLB.

D. Pension Plan

LSSI provides a tax deferred 401(k) profit sharing plan to all qualifying employees. A qualifying employee can be defined as one who has completed one year of continuous services and has worked a minimum of 1,000 hours. All employees who meet these qualifications are eligible for this benefit.

JACKSON-MADISON COUNTY LIBRARY

NOTES TO FINANCIAL STATEMENTS (Cont.)

JUNE 30, 2010

NOTE 11 – JACKSON-MADISON COUNTY LIBRARY FOUNDATION

The purpose of the Jackson-Madison County Library Foundation (Foundation) is to benefit the Library; however, the Foundation has the following factors that distinguish it from being a component unit of the Library: separate corporate powers, board of directors independent of Library's management, and separate financial accountability. In addition, the Foundation is a legally separate, tax exempt entity with their own 501(c)(3) status. The Foundation raises funds to be used at the discretion of the board members and the Library does not have access to these funds. The Library may apply for a grant from the Foundation; this has a process where the Library Trustees fill out a grant request form and submit it to the Foundation's Board of Directors. This grant request is not automatically approved since the Foundation does have other non-profit entities they disburse funding to.

NOTE 12 – TCRS LIABILITY

The Library has a liability of \$213,864 for the TCRS retirement plan. This liability was incurred because there were no contributions made to TCRS from November 2006 to June 2010. The current required contribution is \$10,090 per month. This monthly payment includes the current monthly payment plus the amount necessary to fully amortize this liability over seventeen years.

The City of Jackson and Madison County have agreed to fund this obligation for the fiscal year ending June 30, 2011. For the fiscal year ending June 30, 2012, the Library Board will request the City of Jackson and Madison County to increase appropriations to cover this expense. If the appropriations are not increased, then the Library Board may decrease the amount provided to LSSI for management and operation of the Library to meet the TCRS obligations.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

Two prior period entries were made during the year ending June 30, 2010. TCRS liability (see Note 8 and Note 12) was understated in the prior period by \$106,932. In addition, depreciation expense was overstated by \$42,866 for the prior fiscal year (see Note 9). Prior period adjustments were made to adjust for these differences.

NOTE 14 – GOING CONCERN

As indicated in the accompanying financial statements, the Library showed a decrease in net assets of \$105,885 in the general fund during the year ended June 30, 2010. As of that date, the Library's total liabilities exceeded its total assets by \$208,391. Those factors, as well as the uncertain conditions that the Library faces regarding its TCRS retirement plan (as discussed in Note 8 and Note 12), create an uncertainty about the Library's ability to continue as a going concern. Management of the Library is developing a plan to reduce its liability through payment to the TCRS retirement plan through one of the methods mentioned in Note 12. The ability of the Library to continue as a going concern is dependent on acceptance of the plan by the City and County or by LSSI. The financial statements do not include any adjustments that might be necessary if the Library is unable to continue as a going concern.

REQUIRED SUPPLEMENTARY INFORMATION

JACKSON-MADISON COUNTY LIBRARY

SCHEDULE OF FUNDING PROGRESS

JUNE 30, 2010

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 01, 2009	\$838	\$2,044	\$1,206	41.02%	\$0	0.00%
July 01, 2007	\$1,262	\$2,144	\$882	58.86%	\$0	0.00%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into affect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

JACKSON-MADISON COUNTY LIBRARY
GENERAL FUND
DETAILED SCHEDULE OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010

REVENUE	
Jackson-Madison County Joint Appropriations	\$ 963,894
Jackson-Madison County: Capital Expenditures	10,406
Copy machine revenue	7,750
Fines and penalties	32,813
Computer use and rental fees	1,480
Miscellaneous	6,854
Sale items	3,164
Summer reading program	3,800
Gifts	1,027
Total Revenue	<u>1,031,188</u>
EXPENDITURES	
Building and grounds:	
Repairs and maintenance	10,560
General expenditures:	
Accounting	5,992
Fees	472
Insurance	2,025
Miscellaneous	187
Summer reading program	3,612
TCRS retirement expense	106,932
Library Management	<u>1,007,293</u>
Total Expenditures	<u>1,137,073</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	(105,885)
FUND BALANCE, JULY 1	4,426
PRIOR PERIOD ADJUSTMENT	<u>(106,932)</u>
FUND BALANCE RESTATED JULY 1	<u>(102,506)</u>
FUND BALANCE, JUNE 30	<u>\$ (208,391)</u>

See independent auditor's report.

JACKSON-MADISON COUNTY LIBRARY

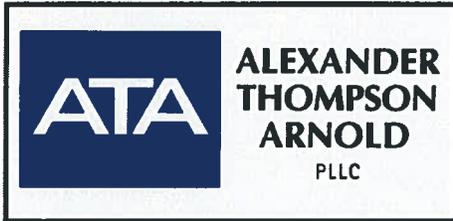
SCHEDULE OF OFFICIALS

JUNE 30, 2010

<u>Members of Board</u>	<u>Amount of Surety Bond</u>
Dr. Sharon Younger, Chair	
Mr. Brandon McWherter, Vice-Chair	
Mr. Robert L. Huffman, Treasurer	
Ms. Terica Smith	
Ms. Stacey Roe	
Mr. Herb Slack	
Mr. Michael Stone	
<u>Director</u>	
Richard Salmons	\$10,000*

*All employees are covered by a \$10,000 blanket surety bond.

See independent auditor's report.



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AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
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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*

Board of Trustees
Jackson-Madison County Library
Jackson, Tennessee

We have audited the financial statements of the governmental activities and the major fund information of the Jackson-Madison County Library, Jackson, Tennessee (Library), as of and for the year ended June 30, 2010 which collectively comprise the Library’s basic financial statements, and have issued our report thereon dated December 10, 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 the Library’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 financial statements will not be prevented, or detected and corrected on a timely basis

Our consideration of the 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, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting: 10-01. A significant deficiency is a deficiency, or a 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.

Dyersburg, TN
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN

Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 10-01.

We noted certain matters that we reported to management of the Library in a separate letter dated December 10, 2010

The Library's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the 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, pass-through entities, and the Comptroller of the Treasury, State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee

December 10, 2010

JACKSON-MADISON COUNTY LIBRARY
SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2010

CURRENT YEAR FINDINGS

10-01 EXPENDITURES NOT BUDGETED (Significant Deficiency and Noncompliance)

Condition:

One expenditure for the TCRS retirement expense was not budgeted; the board was unaware of this expenditure until after year end. The TCRS retirement expense was for \$106,932.

Criteria:

All governmental entities must legally adopt a budget for their general fund and no expenditures should be made outside of those budgeted amounts.

Effect:

Expenditures were not authorized or approved through the budgetary process.

Recommendation:

We recommend that the budget cover all expenditures.

Response:

The board had no knowledge of the TCRS obligation until after the fiscal year. Further, the June 30, 2009 TCRS footnote disclosure for the Library pension fund indicated that there were no obligations for the year ending June 30, 2009. The obligation was not known until July 2010, at which point payments began.

PRIOR YEAR FINDINGS

None noted