

W. G. RHEA PUBLIC LIBRARY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2010

W. G. RHEA PUBLIC LIBRARY
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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INTRODUCTORY SECTION

**W. G. RHEA PUBLIC LIBRARY
DIRECTORY
JUNE 30, 2010**

BOARD MEMBERS

Nancy Elliott
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Dennis Melhouse
Neil Buettner

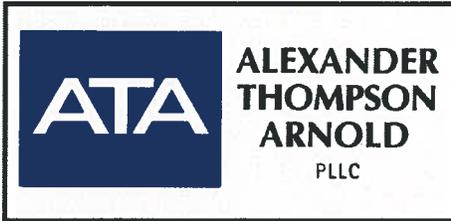
MANAGEMENT TEAM

Connie McSwain, Executive Director
Freda Reddick, Accountant

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION



Certified Public Accountants

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Independent Auditor's Report

The Board of Trustees
W. G. Rhea Public Library
Paris, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of W. G. Rhea Public Library (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 each major fund of the Library, as of June 30, 2010, and the respective changes in financial position 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 December 21, 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 reporting and compliance and the results of that 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 program on pages 4 through 6 and 17 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 basis 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

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

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

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 Library's financial statements as a whole. The introductory section and other supplementary information section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying financial information listed in the other supplementary information section in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare 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 introductory section 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.

A handwritten signature in black ink, appearing to read "Alvin Hobson" followed by "Audit PECC". The signature is written in a cursive, flowing style.

Certified Public Accountants

Jackson, Tennessee
December 21, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of W. G. Rhea Public Library (the Library), we 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. Comparative analyses of key elements of total governmental funds has been provided.

FINANCIAL HIGHLIGHTS

Management believes the Library's financial condition is strong. The Library is well within its more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets at year-end were \$277 thousand and exceeded liabilities in the amount of \$270 thousand (i.e. net assets).
- Net assets decreased \$50 thousand during the current year.
- Operating revenues were \$282 thousand, while operating expenses were \$332 thousand which resulted in a decrease in net assets of \$50 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 and Supplementary Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) other supplementary information section, and 4) the internal control and compliance section. The introductory section includes the Library's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

Due to the Library being composed of only three 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 *Statements of Net Assets and Governmental Fund Balance Sheet* include 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 *Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance* present 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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

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, assets exceeded liabilities by \$270 thousand at the close of the most recent fiscal year. A portion of the Library's net assets (64%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. Although the Library's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CONDENSED STATEMENT OF NET ASSETS

| | June 30, 2010 | June 30, 2009 |
|----------------------------|-------------------|-------------------|
| Current and other assets | \$ 102,957 | \$ 166,651 |
| Capital assets | 174,069 | 226,431 |
| Total assets | <u>277,026</u> | <u>393,082</u> |
| Other liabilities | <u>6,801</u> | <u>72,489</u> |
| Invested in capital assets | 174,069 | 226,431 |
| Reserved | 59,110 | 55,484 |
| Unreserved | <u>37,046</u> | <u>38,678</u> |
| Total net assets | <u>\$ 270,225</u> | <u>\$ 320,593</u> |

Statement of Activities – Expenses in the governmental activities column exceeded revenues by \$50 thousand. Expenses decreased from previous year due to the fact that program related expenses increased during the current fiscal year.

CONDENSED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS

| | June 30, 2010 | June 30, 2009 |
|--------------------------------|-------------------|-------------------|
| Operating revenues | <u>\$ 281,729</u> | <u>\$ 272,469</u> |
| Operating expenditures | <u>332,097</u> | <u>329,619</u> |
| Change in net assets | (50,368) | (57,150) |
| Beginning net assets | 320,593 | 447,743 |
| Prior period adjustment | - | (70,000) |
| Beginning net assets, restated | <u>320,593</u> | <u>377,743</u> |
| Ending net assets | <u>\$ 270,225</u> | <u>\$ 320,593</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (Cont.)

COMMENTS ON FUND FINANCIAL STATEMENTS

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

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 \$13 thousand. The most significant change in revenues and other financing sources in the general fund was:

- A \$13 thousand increase in city and county grant funding.

Expenditures and other financing uses in the general fund increased from last year by approximately \$14 thousand. The most significant changes in expenditures and other financing uses in the general fund were:

- A \$7 thousand increase in personnel.
- A \$7 thousand increase in program related expenses.

A budget comparison statement has been provided to demonstrate compliance with the budget.

CAPITAL ASSET ADMINISTRATION

Capital Assets - At the end of the fiscal year, the Library had invested \$174 thousand in a variety of capital assets.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

There are no substantial changes anticipated for next year's budget.

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 W. G. Rhea Public Library, 400 W. Washington St., Paris, TN 38242.

W. G. RHEA PUBLIC LIBRARY
STATEMENTS OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2010

| | Governmental Funds | | | | Adjustments Note 3A | Statement of Net Assets |
|--|------------------------|--------------------------------|-------------------------|--------------------------|--------------------------|----------------------------|
| | General | Emergency and Miscellaneous | Library Trust | Total | | |
| ASSETS | | | | | | |
| Cash in bank | \$ 6,760 | \$ 33,689 | \$ 15,269 | \$ 55,718 | \$ - | \$ 55,718 |
| Investments | - | - | 44,317 | 44,317 | - | 44,317 |
| Prepaid insurance | 2,922 | - | - | 2,922 | - | 2,922 |
| Capital assets (net of accumulated depreciation) | | | | | | |
| Books | - | - | - | - | 149,787 | 149,787 |
| Furniture | - | - | - | - | 3,362 | 3,362 |
| Equipment | - | - | - | - | 20,920 | 20,920 |
| Total Assets | <u>\$ 9,682</u> | <u>\$ 33,689</u> | <u>\$ 59,586</u> | <u>\$ 102,957</u> | <u>174,069</u> | <u>277,026</u> |
| <u>LIABILITIES AND FUND EQUITY/NET ASSETS</u> | | | | | | |
| LIABILITIES | | | | | | |
| Accounts payable and other accrued expenses | <u>\$ 2,555</u> | <u>\$ 3,770</u> | <u>\$ 476</u> | <u>\$ 6,801</u> | <u>\$ -</u> | <u>\$ 6,801</u> |
| FUND BALANCE/NET ASSETS | | | | | | |
| Reserved | - | - | 59,110 | 59,110 | (59,110) | - |
| Unreserved | 7,127 | 29,919 | - | 37,046 | (37,046) | - |
| Total Fund Balance | <u>7,127</u> | <u>29,919</u> | <u>59,110</u> | <u>96,156</u> | <u>(96,156)</u> | <u>-</u> |
| Total Liabilities and Fund Balance | <u>\$ 9,682</u> | <u>\$ 33,689</u> | <u>\$ 59,586</u> | <u>\$ 102,957</u> | | |
| Net Assets | | | | | | |
| Invested in capital assets | | | | | 174,069 | 174,069 |
| Restricted | | | | | 59,110 | 59,110 |
| Unrestricted | | | | | 37,046 | 37,046 |
| Total Net Assets | | | | | <u>\$ 270,225</u> | <u>\$ 270,225</u> |

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

W. G. RHEA PUBLIC LIBRARY
STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | <u>General</u> | <u>Emergency and Miscellaneous</u> | <u>Library Trust</u> | <u>Total</u> | <u>Adjustments Note 3B</u> | <u>Statement of Activities</u> |
|--|-----------------------|--|--------------------------|-----------------------|--------------------------------|------------------------------------|
| REVENUES | | | | | | |
| City and county funding | \$ 241,400 | \$ - | \$ - | \$ 241,400 | \$ - | \$ 241,400 |
| Program related | - | 21,985 | 6,033 | 28,018 | - | 28,018 |
| Gifts and donations | - | 6,248 | - | 6,248 | - | 6,248 |
| Reimbursements | 50 | - | - | 50 | - | 50 |
| Other | 3,322 | 140 | - | 3,462 | - | 3,462 |
| Interest | - | - | 2,551 | 2,551 | - | 2,551 |
| <u>Total Revenues</u> | <u>244,772</u> | <u>28,373</u> | <u>8,584</u> | <u>281,729</u> | <u>-</u> | <u>281,729</u> |
| EXPENDITURES | | | | | | |
| Personnel | 170,033 | - | - | 170,033 | - | 170,033 |
| Program related | 73,900 | 27,529 | 4,482 | 105,911 | (24,030) | 81,881 |
| Depreciation | - | - | - | - | 80,183 | 80,183 |
| Capital outlay | 318 | 2,997 | 476 | 3,791 | (3,791) | - |
| <u>Total Expenditures</u> | <u>244,251</u> | <u>30,526</u> | <u>4,958</u> | <u>279,735</u> | <u>52,362</u> | <u>332,097</u> |
| <u>Change in Fund Balance/ Net Assets</u> | 521 | (2,153) | 3,626 | 1,994 | (52,362) | (50,368) |
| Fund Balance/Net Assets, July 1 | <u>6,606</u> | <u>32,072</u> | <u>55,484</u> | <u>94,162</u> | <u>226,431</u> | <u>320,593</u> |
| Fund Balance/Net Assets, June 30 | <u>\$ 7,127</u> | <u>\$ 29,919</u> | <u>\$ 59,110</u> | <u>\$ 96,156</u> | <u>\$ 174,069</u> | <u>\$ 270,225</u> |

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

W. G. RHEA PUBLIC LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 – ORGANIZATION

The W. G. Rhea Public Library (Library) was formed in 1959 as a joint organization of the City of Paris and the County of Henry. The Board of Trustees consists of four members appointed by the County Commission and three members appointed by the City Commission. The Trustees are to exercise legal responsibility for the Library, formulate policies and handle finances, including approval of the budget. The Trustees hire a Librarian who is responsible for the administration of the Library under the Trustees' direction.

The objectives of the Library are:

1. To serve the community as a center of reliable information.
2. To provide opportunity and encouragement for self-education at all age levels.
3. To provide books, materials, programs, services, and information conducive to education, inspiration, good citizenship, and the creative use of leisure time.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Library conform to generally accepted accounting principles applicable to government as defined in the *Statement of Governmental Accounting Standards Board (GASB)*. The following is a summary of the more significant accounting policies.

A. Reporting Entity

In evaluating how to define the Library, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*. The basic criterion for including a potential component unit within the reporting entity is whether the primary government is financially accountable.

The primary government is financially accountable if it appoints a voting majority of a component unit's governing body (accountability), and if it either has the ability to impose its will on the component unit or the financial benefit or burden consideration exists; i.e., there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Excluded from the reporting entity:

W. G. Rhea Paris-Henry County Library Trust, an irrevocable charitable trust which has tax-exempt status under Section 501 (c) (3) of the Internal Revenue Code (IRC). This potential component unit has a separately appointed board and provides funding for specific programs within the Library, which are not funded by the City or the County. (See Note 8 for details.) It is excluded from the reporting entity because the Library does not have the ability to appoint a voting majority of the Trust's board of directors. Also, if the Library ceases to qualify as a charitable organization, as defined by the IRC, the Trustees are to distribute the trust income to other charitable organizations at their discretion. Although the trust corpus is not included in this report, the revenue received from the trust is reported in a special revenue fund titled "Library Trust Fund".

W. G. RHEA PUBLIC LIBRARY
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement 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 (i.e., the statements of net assets and the statement of changes in net assets) and the governmental funds financial statements (i.e., the balance sheet and the statement of revenues, expenditures, and changes in fund balances) have been consolidated into one report. The adjustments from the fund financial statements to the government-wide statements have been consolidated into the middle column of the reports for simplicity.

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 and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 Library 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. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The Library has the following major governmental funds:

The General Fund is the primary operating fund. It accounts for all grant revenue from the City of Paris and Henry County and the expenditure thereof.

The Emergency and Miscellaneous Fund accounts for all other program revenue of the Library and the expenditure thereof.

The Library Trust Fund accounts for the revenue and expenditure thereof from an independently operated and managed trust fund which benefits the library.

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.

W. G. RHEA PUBLIC LIBRARY
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The financial statements of the Library are prepared in accordance with generally accepted accounting principles. The Library's reporting entity applies all relevant *Governmental Accounting Standards Board* (GASB) pronouncements and applicable *Financial Accounting Standards Board* (FASB) pronouncements and *Accounting Principle Board* (APB) opinions issued on or before November 30, 1989 unless they conflict with GASB pronouncements. The Library's reporting entity does not apply FASB pronouncements issued after November 30, 1989.

The major sources of revenue are grants, contributions, trust income and other revenues as discussed below:

a) City and County Grant Revenue

Grant revenue is recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

b) In-Kind – Contributed Property

Local contributions include contributed property provided by individuals, private organizations and local governments. Contributed property is recorded as an expenditure with an equivalent amount recorded in the accompanying financial statements at their estimated fair values at date of receipt.

c) Trust Income

The Library receives \$2,448 a year from a charitable trust as further disclosed in Note 8.

d) Other Revenues

Other revenues are composed primarily of interest and miscellaneous charges for services. Interest income is recorded as earned since it is measurable and available. Miscellaneous charges for services are recorded as revenues when received in cash because they are generally not measurable until actually received.

D. Budgets and Budgetary Accounting

The Library's annual budgets are a management tool that assists its users in analyzing financial activity for its fiscal year ending June 30. Their primary funding source is local grants 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.

E. Leave Policies

The full-time staff shall have two weeks vacation with pay at the end of one year of service. Any unused vacation up to one week may be carried over to the following year. It must then be used or lost. This amount was not considered material and as a result it was not recorded.

A maximum of fourteen days sick leave is given each year. Annual vacation may be used during an illness after the expiration of one's sick leave, but sick leave shall not be substituted or used for vacation leave.

W. G. RHEA PUBLIC LIBRARY
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Leave Policies (cont.)

Sick leave may accrue to a maximum of sixty days, but the employee has no vested interest in the leave. Therefore no accrual is made for uncompensated absences due to accrued sick pay.

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library.

G. Capital Assets

Capital assets over \$100, which include equipment and furniture, are recorded at cost. 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. Depreciation on governmental-wide statements is recorded on the straight-line basis over the following lives:

| | |
|------------------------|--------------|
| Books and materials | 10 years |
| Furniture and fixtures | 5 - 10 years |
| Equipment | 2 - 15 years |

H. Concentration of Credit Risk

The general fund is entirely funded by the City of Paris and Henry County government. The Library Trust Fund is entirely funded by the W. G. Rhea Trust (see also Note 8).

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 include the following items:

When capital assets 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 | \$ 2,639,301 |
| Accumulated depreciation | <u>(2,465,232)</u> |
| | <u>\$ 174,069</u> |

W. G. RHEA PUBLIC LIBRARY
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
 JUNE 30, 2010

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont.)

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.

| | |
|--------------------------|--------------------|
| Capital assets purchased | \$ 27,821 |
| Depreciation expense | <u>(80,183)</u> |
| Difference | <u>\$ (52,362)</u> |

NOTE 4 – DEPOSITS AND INVESTMENTS

Custodial Credit Risk

The Library's policies limit deposits and investments to those instruments allowed by applicable state laws as described in Note 2. State statutes require 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 of at least equal to the amount of funds invested in the repurchase transaction.

As of June 30, 2010, the bank deposits were fully collateralized.

Investments for the Library are reported at fair value. All investments at June 30, 2010, consisted of certificates of deposit and a money market account.

NOTE 5 – CAPITAL ASSETS

Capital assets acquired in the funds are expensed when purchased. The assets on the government-wide financial statements include only those that have met the Library's capitalization policy of more than \$100. Amounts remaining in capital outlay in the fund financial statements are for items that were not capitalized. Capital asset activity for the year ended June 30, 2010, was as follows:

W. G. RHEA PUBLIC LIBRARY
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010

NOTE 5 – CAPITAL ASSETS (Cont.)

| | Balance | Additions | Retirements | Balance |
|---|-------------------|--------------------|-------------|-------------------|
| Capital assets, being depreciated: | | | | |
| Buildings | \$ 588,757 | \$ - | \$ - | \$ 588,757 |
| Books | 1,514,083 | 23,330 | - | 1,537,413 |
| Furniture | 90,907 | 186 | - | 91,093 |
| Equipment | 417,733 | 4,305 | - | 422,038 |
| Total capital assets, being depreciated | <u>2,611,480</u> | <u>27,821</u> | <u>-</u> | <u>2,639,301</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 588,757 | - | - | 588,757 |
| Books | 1,323,884 | 63,741 | - | 1,387,625 |
| Furniture | 85,766 | 1,965 | - | 87,731 |
| Equipment | 386,642 | 14,477 | - | 401,119 |
| Total depreciation | <u>2,385,049</u> | <u>80,183</u> | <u>-</u> | <u>2,465,232</u> |
| Governmental activities capital assets, net | <u>\$ 226,431</u> | <u>\$ (52,362)</u> | <u>\$ -</u> | <u>\$ 174,069</u> |

Depreciation expense for the year ended June 30, 2010 was \$80,183.

NOTE 6 – RETIREMENT PLANPlan 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.

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, Tennessee 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

The Library requires employees to contribute 5.0 percent of earnable compensation.

The Library is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010 was 10.86% of annual covered payroll. 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.

W. G. RHEA PUBLIC LIBRARY
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010

NOTE 6 – RETIREMENT PLAN (Cont.)

Annual Pension Cost

For the year ending June 30, 2010, the Library's annual pension cost of \$11,254 to TCRS was equal to the Library's required and actual contributions. 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. 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 dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 8 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

| <u>Fiscal</u> <u>Year</u> <u>Ending</u> | <u>Annual</u> <u>Pension</u> <u>Costs (APC)</u> | <u>Percentage of</u> <u>APC Contributed</u> | <u>Net</u> <u>Pension</u> <u>Obligation</u> |
|---|---|--|---|
| 6/30/2010 | \$ 11,254 | 100.00% | \$ - |
| 6/30/2009 | \$ 10,952 | 100.00% | \$ - |
| 6/30/2008 | \$ 9,438 | 100.00% | \$ - |

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 85.88 percent funded. The actuarial accrued liability for benefits was \$0.33 million, and the actuarial value of assets was \$0.28 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.05 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.07 million, and the ratio of the UAAL to the covered payroll was 69.24 percent.

The schedules of funding process, 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</u> <u>Valuation</u> <u>Date</u> | <u>Actuarial</u> <u>Value of Plan</u> <u>Assets (a)</u> | <u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>Entry Age (b)</u> | <u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b) - (a)</u> | <u>Funded</u> <u>Ratio</u> <u>(a/b)</u> | <u>Covered</u> <u>Payroll</u> <u>(c)</u> | <u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u> |
|---|---|--|--|---|--|--|
| July 1, 2009 | \$282 | \$328 | \$46 | 85.88% | \$67 | 69.24% |
| July 1, 2007 | \$268 | \$268 | \$0 | 100.00% | \$62 | 0% |

W. G. RHEA PUBLIC LIBRARY
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010

NOTE 7 – INTERFUND TRANSFERS

There were no interfund transfers during the fiscal year ended June 30, 2010.

NOTE 8 – W. G. RHEA PUBLIC LIBRARY TRUST FUND

In December 1980, Dr. William Gardner Rhea, Sr. created an irrevocable charitable trust into which he donated \$40,000. Subsequent gifts of \$30,000 each were received in December 1984 and December 1985. The perpetual trust is administered by an independent board of trustees. The trust corpus is not to be invaded per the trust agreement. The sole income beneficiary of the trust is the Library; the trust income for the library fiscal year ended June 30, 2010 was \$2,448. The restrictions on the trust's income are as follows:

“It is directed that the income from this trust shall be used for purposes other than those routinely due to be provided by the City of Paris and Henry County. Examples of such use of income from the trust shall include, but not be limited to, improvement of premises and equipment or the purchase of standard equipment or materials not usually furnished by the General Operating Fund. Routine maintenance of buildings and premises is not eligible for the funds.”

NOTE 9 – RESERVED FUND BALANCE

The fund balance of the Library Trust Fund is reserved as its revenues must be expended in accordance with the requirement of the charitable trust from which it receives funding.

NOTE 10 – RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2010, the Library purchased commercial insurance for all the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

REQUIRED SUPPLEMENTARY INFORMATION

W. G. RHEA PUBLIC LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2010

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AL (UAAL) (b) - (a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|---|----------------------------|-----------------------------|--|
| 7/1/2009 | \$ 282,000 | \$ 328,000 | \$ 46,000 | 85.88% | \$ 67,000 | 69.24% |
| 7/1/2007 | \$ 268,000 | \$ 268,000 | - | 100.00% | \$ 62,000 | 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.

OTHER SUPPLEMENTARY INFORMATION

W. G. RHEA PUBLIC LIBRARY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | Original Budget | Final Budget | Actual | Variance - Over / (Under) |
|----------------------------------|--------------------------|--------------------------|--------------------------|---------------------------------|
| REVENUES | | | | |
| Henry County funding | \$ 120,700 | \$ 120,700 | \$ 120,700 | \$ - |
| City of Paris funding | 120,700 | 120,700 | 120,700 | - |
| Donations | - | - | 3,322 | 3,322 |
| Reimbursements | - | - | 50 | 50 |
| <u>Total Revenues</u> | <u>241,400</u> | <u>241,400</u> | <u>244,772</u> | <u>3,372</u> |
| EXPENDITURES | | | | |
| Salaries | 126,208 | 126,208 | 127,822 | 1,614 |
| Payroll taxes | 10,500 | 10,500 | 9,542 | (958) |
| Retirement | 11,050 | 11,050 | 11,254 | 204 |
| Employee insurance | 21,162 | 21,162 | 21,415 | 253 |
| Periodicals | 800 | 800 | 1,038 | 238 |
| Books | 22,000 | 22,000 | 23,330 | 1,330 |
| Utilities | 19,000 | 19,000 | 17,336 | (1,664) |
| Telephone and fax | 4,500 | 4,500 | 4,634 | 134 |
| Building insurance | 3,500 | 3,500 | 3,064 | (436) |
| Worker's compensation | 820 | 820 | 875 | 55 |
| Janitorial | 5,616 | 5,616 | 6,079 | 463 |
| Landscaping | 1,600 | 1,600 | 1,597 | (3) |
| Supplies | 2,400 | 2,400 | 3,426 | 1,026 |
| Maintenance and repairs | 3,000 | 3,000 | 3,260 | 260 |
| Postage | 2,000 | 2,000 | 2,031 | 31 |
| Employee training | 400 | 400 | 408 | 8 |
| Technology | 3,000 | 3,000 | 1,730 | (1,270) |
| Travel | 1,500 | 1,500 | 1,582 | 82 |
| Professional fees | 2,000 | 2,000 | 3,420 | 1,420 |
| Reimbursements | - | - | 149 | 149 |
| Miscellaneous | 344 | 344 | 259 | (85) |
| <u>Total Expenditures</u> | <u>\$ 241,400</u> | <u>\$ 241,400</u> | <u>\$ 244,251</u> | <u>\$ 2,851</u> |

See independent auditor's report.

W. G. RHEA PUBLIC LIBRARY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance - Over / (Under)</u> |
|--|----------------------------|-------------------------|-----------------|--|
| <u>Excess (Deficiency) of Revenues</u> | | | | |
| <u>Over (Under) Expenditures</u> | \$ - | \$ - | \$ 521 | \$ 521 |
| Fund Balance, July 1 | | | <u>6,606</u> | |
| Fund Balance, June 30 | | | <u>\$ 7,127</u> | |

See independent auditor's report.

W. G. RHEA PUBLIC LIBRARY
EMERGENCY & MISCELLANEOUS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | Original Budget | Final Budget | Actual | Variance - Over / (Under) |
|------------------------------|----------------------|----------------------|----------------------|---------------------------------|
| REVENUES | | | | |
| Computer printer revenue | \$ 3,200 | \$ 3,200 | 2,774 | \$ (426) |
| Copy machine revenue | 2,100 | 2,100 | 1,828 | (272) |
| E-Rate revenue | 2,600 | 2,600 | 1,930 | (670) |
| Fine revenue | 5,200 | 5,200 | 3,719 | (1,481) |
| Memorials and donations | 4,000 | 4,000 | 2,360 | (1,640) |
| Fax revenue | 1,300 | 1,300 | 1,472 | 172 |
| Library card replacement fee | - | - | 1,398 | 1,398 |
| Genealogy revenue | 5,000 | 5,000 | 5,482 | 482 |
| Postage donation | 180 | 180 | 84 | (96) |
| FOL Donations | 300 | 300 | 3,804 | 3,504 |
| Reimbursements | - | - | 231 | 231 |
| Lost book reimbursements | - | - | 983 | 983 |
| Miscellaneous | - | - | 588 | 588 |
| Construction Income | - | - | 80 | 80 |
| Special appropriations | 5,000 | 5,000 | 1,500 | (3,500) |
| Nonresident Fee | 220 | 220 | 140 | (80) |
| <u>Total Revenues</u> | <u>29,100</u> | <u>29,100</u> | <u>28,373</u> | <u>(727)</u> |
| EXPENDITURES | | | | |
| Dues | 250 | 250 | 220 | (30) |
| Lost books | 100 | 100 | 26 | (74) |
| Books on CD | 1,000 | 1,000 | 598 | (402) |
| E-Rate expense | 2,000 | 2,000 | 1,160 | (840) |
| Miscellaneous | 3,070 | 3,070 | 591 | (2,479) |
| Printing and binding | 100 | 100 | 95 | (5) |
| Supplies | - | - | 3,626 | 3,626 |
| Maintenance and repairs | 2,500 | 2,500 | 1,004 | (1,496) |
| Travel | 1,700 | 1,700 | 142 | (1,558) |
| Reimbursements | - | - | 589 | 589 |
| Postage | 180 | 180 | - | (180) |
| Computer technology | 1,000 | 1,000 | 297 | (703) |
| Copy machine | 2,100 | 2,100 | 4,016 | 1,916 |
| Equipment/furniture | 400 | 400 | 423 | 23 |
| Genealogy | 5,000 | 5,000 | 5,230 | 230 |
| Gifts | 100 | 100 | - | (100) |
| Memorial/donations | 3,800 | 3,800 | 6,621 | 2,821 |

See independent auditor's report.

W. G. RHEA PUBLIC LIBRARY
EMERGENCY & MISCELLANEOUS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Cont.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | Original Budget | Final Budget | Actual | Variance - Over / (Under) |
|-------------------------------------|--------------------|------------------|-------------------|---------------------------------|
| Special appropriations | 5,000 | 5,000 | - | (5,000) |
| Payroll expenses | - | - | 2,520 | 2,520 |
| Summer reading program | - | - | 2,588 | 2,588 |
| Programming | 800 | 800 | 780 | (20) |
| <u>Total Expenditures</u> | <u>\$ 29,100</u> | <u>\$ 29,100</u> | <u>\$ 30,526</u> | <u>\$ 1,426</u> |
| Excess (Deficiency) of Revenues | | | | |
| <u>Over (Under) Expenditures</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (2,153)</u> | <u>\$ 699</u> |
| Fund Balance, July 1 | | | 32,072 | |
| Fund Balance, June 30 | | | <u>\$ 29,919</u> | |

See independent auditor's report.

W. G. RHEA PUBLIC LIBRARY
LIBRARY TRUST FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | Original Budget | Final Budget | Actual | Variance - Over / (Under) |
|--|--------------------|-----------------|-----------|---------------------------------|
| REVENUES | | | | |
| Gift from trust | \$ 5,915 | \$ 5,915 | \$ 6,033 | \$ 118 |
| Interest revenue | 485 | 485 | 2,551 | 2,066 |
| <u>Total Revenues</u> | 6,400 | 6,400 | 8,584 | 2,184 |
| EXPENDITURES | | | | |
| Audio program | 2,470 | 2,470 | 2,474 | 4 |
| Reference materials | 1,400 | 1,400 | 784 | (616) |
| Computers/technology | 1,900 | 1,900 | 1,430 | (470) |
| Special programming | 500 | 500 | 270 | (230) |
| Miscellaneous | 130 | 130 | - | (130) |
| <u>Total Expenditures</u> | 6,400 | 6,400 | 4,958 | (1,442) |
| <u>Excess (Deficiency) of Revenues</u> | | | | |
| <u>Over (Under) Expenditures</u> | \$ - | \$ - | 3,626 | \$ 3,626 |
| Fund Balance, July 1 | | | 55,484 | |
| Fund Balance, June 30 | | | \$ 59,110 | |

See independent auditor's report.

W. G. RHEA PUBLIC LIBRARY
SCHEDULE OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

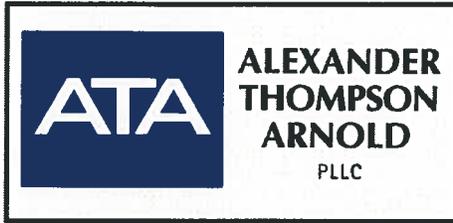
| <u>Grant or Program</u> | <u>CFDA Number</u> | <u>Contract Number</u> | <u>(Receivable) Unspent 7/1/2009</u> | <u>Receipts</u> | <u>Expenditures</u> | <u>(Receivable) Unspent 6/30/2010</u> |
|---|------------------------|----------------------------|--|-----------------|---------------------|---|
| Institute of Museum and Library Services, Tennessee | | | | | | |
| State Library and Archives | | | | | | |
| Passed through Tennessee Department of State: | | | | | | |
| Grants to State (State Library Program) | 45.310 | 1286 | \$ - | \$ 1,500 | \$ 1,500 | \$ - |
| Total Federal Awards | | | <u>\$ -</u> | <u>\$ 1,500</u> | <u>\$ 1,500</u> | <u>\$ -</u> |

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of the W. G. Rhea Public Library under programs of the federal government for the year ended June 30, 2010. The expenditures are presented using the modified accrual basis of accounting.

See the independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



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*

The Board of Trustees
W. G. Rhea Public Library
Paris, Tennessee

We have audited the financial statements of the governmental activities and each major fund of the W.G. Rhea Public Library, Paris, 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 21, 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 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, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies in internal control over financial reporting. [09-01] 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Library, in a separate letter dated December 21, 2010.

The Library's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. 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, 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.

A handwritten signature in black ink, appearing to read "Gerald Thompson and PCC". The signature is written in a cursive, flowing style.

Certified Public Accountants
Jackson, Tennessee
December 21, 2010

W. G. RHEA PUBLIC LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2010

CURRENT YEAR FINDINGS

09-01 Exceeding the Budget (Significant Deficiency)

Condition: The expenditures in the General Fund exceeded the budget appropriations by \$2,852. The result of this overage was due primarily to salaries and professional fees exceeding budgeted amounts and purchasing more books than the amount budgeted. Additionally, the expenditures in the Emergency and Miscellaneous Fund exceeded the budgeted appropriations by \$1,426. The result of this overage was due to the fact that supplies, payroll expenses, and the summer reading program expenses were not line items in the budget.

Criteria: The budget is the approved spending plan for the Library and should be adhered to and amended as necessary.

Effect: Expenditures exceeding the budget are unapproved by the board.

Recommendation: We recommend that all expenditures of the Library be authorized through an approved budget in all funds and if necessary, make approved budget amendments.

Response: We concur.

PRIOR YEAR FINDINGS

09-02 Accounting for Legally Separate Entity (Significant Deficiency) - Corrected