

LINEBAUGH PUBLIC LIBRARY SYSTEM

MURFREESBORO, TENNESSEE

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

LINEBAUGH PUBLIC LIBRARY SYSTEM

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Independent Auditors' Report

To the Board of Directors of the Linebaugh Public Library System
Murfreesboro, Tennessee

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit and each major fund of the Linebaugh Public Library System as of June 30, 2010, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the governmental activities, the discretely presented component unit and each major fund of the Linebaugh Public Library System 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 a report dated November 29, 2010 on our consideration of the Linebaugh Public Library System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of 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 analysis on pages 4-6 and schedule of funding progress on page 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 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.

Dempsey Vantrease & Follis PLLC

Murfreesboro, Tennessee
November 29, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Linebaugh Library System's (Library) financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2010. This should be read in conjunction with the Library's financial statements which begin on page 7.

FINANCIAL HIGHLIGHTS

- The Library net assets increased by \$251,092 for the year.

The Library's program and other revenues were about the same as the prior year with the exception of a grant from Christy-Houston Foundation for \$282,387 and several other smaller grants.

- The expenses for the year were \$2.23 million compared to \$2.21 million in the prior year.

USING THIS REPORT

This report consists of the following financial statements: the statement of net assets, statement of activities and the fund financial statements. The statement of net assets and statement of activities provide information about the Library's finances as a whole, whereas the fund financial statements provide more detail information about the Library's operations.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements include the statement of net assets and the statement of activities and report the operations of the Library as a whole using accounting methods similar to those used by private companies. These two statements report the Library's net assets and how they changed. Net assets, which are the difference between assets and liabilities, are one way to measure the Library's financial health. Over time, increases or decreases in the Library's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors should also be considered such as the overall financial health of Rutherford County, the City of Smyrna, the City of Eagleville and the City of Murfreesboro since these entities primarily support the Library. Also included in the government-wide statements is a component unit, the Linebaugh Library Foundation ("the foundation"), which is a separate, tax exempt entity that supports the Library.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Library's four funds – the Smyrna Public Library fund, the Myrtle Glanton Lord (MGL) Library fund, the Eagleville Bicentennial Library fund and the Linebaugh Public Library (Murfreesboro) fund. These four funds track the specific revenues and expenses for each fund and the balances that are left in the funds for future spending. These funds only focus on cash and other assets that can be easily converted to cash. The fund statements include a reconciliation of the difference between the fund statements and the government-wide statements.

FINANCIAL ANALYSIS

A condensed statement of the Library's net assets excluding the foundation is shown in Table 1 below.

Table 1
Net Assets

	2010	2009
Cash and investments	\$ 828,263	\$ 701,668
Capital assets	1,046,160	922,515
Other	18,221	18,222
	<u>1,892,644</u>	<u>1,642,405</u>
Other liabilities	(89,416)	(90,269)
Net assets:		
Invested in capital assets	1,046,160	922,515
Unrestricted	703,063	628,450
Restricted for grants	54,005	1,171
	<u>\$ 1,803,228</u>	<u>\$ 1,552,136</u>

Net assets for the year increased by \$251,092. The unrestricted net assets give a good indication of the assets available for future operations.

A condensed statement of the Library's statement of activities is shown in Table 2 below.

Table 2
Changes in Net Assets

	2010	2009
Program revenues	\$ 133,613	\$ 146,585
Local government support	1,938,859	1,938,859
Other revenues	414,972	154,354
	<u>2,487,444</u>	<u>2,239,798</u>
Expenses:		
Payroll and benefits	1,385,204	1,321,545
Books and periodicals	9,291	9,899
Occupancy	226,884	231,837
Depreciation	431,579	411,333
Other costs	183,394	245,067
	<u>2,236,352</u>	<u>2,219,681</u>
Increase in net assets	<u>\$ 251,092</u>	<u>\$ 20,117</u>

The increase in other revenues is primarily related to the Library receiving \$282,387 more in a grant from the Christy-Houston Foundation in 2009 that was used to pay for RFID software(automated check out system) and equipment, books, computers, furnishings and other equipment. Government funding remained the same as the previous fiscal year. The increase in depreciation for 2010 is largely due to the age of the library's collection.

CAPITAL ASSETS

At the end of the fiscal year the Library had \$1,046,160 invested in capital assets. It should be noted that the Library does not own its facilities in Smyrna, Murfreesboro, or Eagleville. They are owned jointly by Rutherford County and/or the respective cities. Capital asset additions in the current year were approximately \$555,000 including books purchased or donated of \$339,000. The remaining additions were primarily computers and related software, furniture and equipment.

NEXT YEAR'S ACTIVITIES

Management expects next year operations to be consistent with the 2010 fiscal year with an approximate 4% increase in funding for FY2011.

LINEBAUGH PUBLIC LIBRARY SYSTEM

STATEMENT OF NET ASSETS

June 30, 2010

	<u>Primary Government</u>	<u>Component Unit- Linebaugh Library Foundation</u>
ASSETS		
Cash and cash equivalents	\$ 525,263	\$ 184,691
Investments	303,000	-
Prepaid expenses	18,221	-
Capital assets, net of accumulated depreciation	<u>1,046,160</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,892,644</u>	<u>\$ 184,691</u>
LIABILITIES		
Accounts payable	\$ 5,207	\$ -
Accrued vacation	<u>84,209</u>	<u>-</u>
TOTAL LIABILITIES	89,416	-
NET ASSETS		
Invested in capital assets	1,046,160	-
Unrestricted	703,063	172,525
Restricted for grant or other purposes	<u>54,005</u>	<u>12,166</u>
	<u>1,803,228</u>	<u>184,691</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,892,644</u>	<u>\$ 184,691</u>

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

	<u>Primary Government</u>	<u>Component Unit- Linebaugh Library Foundation</u>
Expenses:		
Payroll and benefits	\$ 1,385,204	\$ -
Periodicals	9,291	-
Occupancy costs	226,884	-
Depreciation	431,579	-
Other operating costs	183,394	375
	<hr/>	<hr/>
Total program expenses	2,236,352	375
Program Revenues	<hr/> 133,613	<hr/> -
Net program expense	2,102,739	375
General Revenues:		
Local government support	1,938,859	-
Interest	17,403	275
Donated Books	92,710	-
Grant income	287,200	-
Miscellaneous public support	17,659	4,250
	<hr/>	<hr/>
Total general revenues	2,353,831	4,525
Increase in net assets	251,092	4,150
Net assets at beginning of year	<hr/> 1,552,136	<hr/> 180,541
Net assets at end of year	<u>\$ 1,803,228</u>	<u>\$ 184,691</u>

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM
GOVERNMENTAL FUND BALANCE SHEET

June 30, 2010

<u>ASSETS</u>					
	<u>Murfreesboro</u>	<u>Smyrna</u>	<u>Myrtle Lord</u>	<u>Eagleville</u>	<u>Total</u>
Pooled cash and cash equivalents	\$ 289,880	\$ 188,414	\$ 32,644	\$ 14,325	\$ 525,263
Pooled investments	160,770	142,230	-	-	303,000
Prepaid items	12,199	5,589	169	264	18,221
Total assets	<u>\$ 462,849</u>	<u>\$ 336,233</u>	<u>\$ 32,813</u>	<u>\$ 14,589</u>	<u>\$ 846,484</u>

<u>LIABILITIES AND FUND BALANCES</u>					
Accounts payable	\$ 5,207	\$ -	\$ -	\$ -	\$ 5,207
Fund balance	<u>457,642</u>	<u>336,233</u>	<u>32,813</u>	<u>14,589</u>	841,277
Total liabilities and fund balance	<u>\$ 462,849</u>	<u>\$ 336,233</u>	<u>\$ 32,813</u>	<u>\$ 14,589</u>	

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not reported in the funds	1,046,160
Accrued vacation pay is not due in the current period and therefore is not reported in the funds	<u>(84,209)</u>
	<u>\$ 1,803,228</u>

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM

STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended June 30, 2010

	<u>Murfreesboro</u>	<u>Smyrna</u>	<u>Myrtle Lord</u>	<u>Eagleville</u>	<u>Total</u>
Revenue					
City funds	\$ 623,531	\$ 211,800	\$ 58,301	\$ 13,079	\$ 906,711
County funds	784,432	227,073	-	20,643	1,032,148
Gifts and memorials	10,043	3,060	4,522	35	17,660
Gifts from Library Foundation	-	-	-	-	-
Grant income	287,200	-	-	-	287,200
Interest income	12,094	4,190	571	548	17,403
Fines and miscellaneous	82,575	48,202	1,816	1,019	133,612
Total revenue	<u>1,799,875</u>	<u>494,325</u>	<u>65,210</u>	<u>35,324</u>	<u>2,394,734</u>
Expenditures					
Books purchased	174,460	61,811	6,659	2,818	245,748
Salaries	791,129	235,238	35,733	16,612	1,078,712
Payroll taxes	59,306	17,138	2,729	1,281	80,454
Retirement	57,549	15,579	-	-	73,128
Employee insurance	117,627	34,046	-	5,955	157,628
Utilities	70,692	34,054	-	1,019	105,765
Telephone	7,661	9,684	1,306	930	19,581
Supplies	24,138	6,596	1,256	283	32,273
Periodicals	5,687	2,143	1,461	-	9,291
Professional fees	4,162	2,040	325	325	6,852
Repairs and maintenance	69,878	28,875	-	676	99,429
Computer support and maintenance	24,821	8,073	3,363	1,409	37,666
Databases	21,565	10,215	4,540	1,513	37,833
Insurance	14,380	6,106	138	1,064	21,688
Miscellaneous	8,381	754	27	27	9,189
Postage and freight	6,019	2,148	53	-	8,220
Travel and meetings	518	305	-	9	832
Professional development	1,595	300	16	8	1,919
Collection agency	9,670	4,835	146	-	14,651
Grant expenses	221,800	847	2,095	-	224,742
Reading programs	2,649	3,672	83	-	6,404
Total expenditures	<u>1,693,687</u>	<u>484,459</u>	<u>59,930</u>	<u>33,929</u>	<u>2,272,005</u>
Excess revenue over expenditures	106,188	9,866	5,280	1,395	122,729
Fund balance - beginning of year	<u>351,454</u>	<u>326,367</u>	<u>27,533</u>	<u>13,194</u>	<u>718,548</u>
Fund balance - end of year	<u>\$ 457,642</u>	<u>\$ 336,233</u>	<u>\$ 32,813</u>	<u>\$ 14,589</u>	<u>\$ 841,277</u>

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

Net change in governmental fund balances	\$ 122,729
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital asset additions as expenditures, however, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital purchases exceed depreciation expense	123,644
Accrued vacation pay included in statement of activities do not require use of current financial resources and therefore are excluded from expenditures in the governmental funds	<u>4,719</u>
Change in net assets of governmental activities	<u>\$ 251,092</u>

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity - The financial statements presented are for the combined operations of Linebaugh Public Library, Murfreesboro, Tennessee; Smyrna Public Library, Smyrna, Tennessee; Myrtle Lord Library, Murfreesboro, Tennessee; and Eagleville Bicentennial Library, Eagleville, Tennessee (effective January 1, 2006). The Linebaugh Public Library System is considered a joint venture between the City of Murfreesboro, Tennessee, and City of Smyrna, Tennessee, and Rutherford County, Tennessee. The Library System is financed primarily by contributions from these entities. The city councils and county commission appoint the Board members. The Linebaugh Public Library Foundation is a legally separate, tax-exempt component unit of the Library System. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Library System in support of its programs. Although the Library System does not control the timing or amount of funds available from the foundation, all funds held by the foundation are for the ultimate benefit of the Library System, and therefore the foundation is considered a component unit of the Library System and is discretely presented in the Library System's financial statements. The foundation does not prepare separate financial statements.

Government Wide and Fund Financial Statements - The government wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Library System as a whole. Individual fund statements are not displayed. The Library System only has governmental fund activities.

The statement of activities reports the expenses of the Library System's program, which is the operation of the public library system in Murfreesboro and Smyrna. Program revenues include fees, fines and grants. General revenues consist primarily of local governmental funding. The fund financial statements are provided for the Library System's governmental funds.

Basis of Accounting - Government wide statements report using the accrual method of accounting. Governmental fund statements report using the modified accrual method of accounting. The major difference for the Library System between the two methods is the modified accrual method recognizes capital assets as expenditures whereas the accrual method capitalizes capital assets and allocates depreciation expense over the lives of the assets.

Major Funds - The Library System's accounts for the operation of the Murfreesboro and Smyrna Public Libraries are considered major funds. The Library System has elected to present the Myrtle Lord Library and the Eagleville Library as major funds in the governmental fund financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets and Depreciation – The Library System’s capital assets consist primarily of furniture, fixtures, computer equipment, and its book collection. The Library Systems’ buildings are owned by their respective city and the county. Capital assets costing \$1,500 or more with a useful life of one year or more are capitalized. The costs of normal repair and maintenance that do not add to the asset value or materially extend useful lives are expensed. Capital assets are depreciated using the straight line method using lives of 7-10 years for furniture and fixtures and 4 years for computer equipment. Books are depreciated using a composite depreciation method over a 5 year period. Works of art and book collections that are held for historical preservation are expensed. Books that are discarded are charged off against the cost of books and accumulated depreciation using the most recent average cost. Donated books are valued at \$15 per book.

Budgeting – The Library System prepares an operating budget approved by the Board of Directors. The budget is not legally adopted.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

The Library’s cash deposits are entirely insured through federal depository insurance or the state multiple institution collateral pool. The Library System pools its cash and investments. Each fund’s portion of a pool is displayed on its respective balance sheet as “pooled cash and cash equivalents”.

The Library System considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

The Library’s investments are reported at cost which approximates fair value and consists of the following:

Certificate of deposit F&M Bank, 1.98%, mature 11/24/10	\$	100,000
Certificate of deposit F&M Bank, 1.98%, mature 11/24/10		100,000
Certificate of deposit- First Bank, 3.00%, mature 2/28/2011		100,000
Certificate of deposit- Region’s Bank, 2.37%, mature 12/18/10		3,000
	\$	<u>303,000</u>

Statutes allow the Library to invest in certificates of deposit and the state treasurer’s investment pool. Certificates of deposit are fully insured through federal depository insurance.

LINEBAUGH PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE C – CAPITAL ASSETS

Capital assets changes for the year were as follows:

	Balance at June 30, 2009	Additions	Disposals	Balance at June 30, 2010
Cost				
Furniture and equipment	\$ 774,865	\$ 178,026	\$ -	\$ 952,891
Computers and software	439,200	38,740	-	477,940
Vehicles	110,771	-	-	110,771
Books	5,748,873	338,457	381,809	5,705,521
	<u>\$ 7,073,709</u>	<u>\$ 555,223</u>	<u>\$ 381,809</u>	<u>\$ 7,247,123</u>
Accumulated Depreciation				
Furniture and fixtures	\$ 581,657	\$ 53,538	\$ -	\$ 635,195
Computers and software	398,263	29,322	-	427,585
Vehicles	77,682	22,154	-	99,836
Books	5,093,592	326,565	381,809	5,038,348
	<u>\$ 6,151,193</u>	<u>\$ 431,579</u>	<u>\$ 381,809</u>	<u>\$ 6,200,964</u>

NOTE D - PENSION PLAN

Plan Description

Employees of the Linebaugh Public Library System 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 became 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 5 years of service and members joining prior to July 1, 1979 were vested after 4 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 Linebaugh Public Library System 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.

LINEBAUGH PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE D – PENSION PLAN(CONTINUED)

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.treasury.state.tn.us/tcrs/PS/>.

Funding Policy

The Linebaugh Public Library System requires employees to contribute 5.0 percent of earnable compensation. The Linebaugh Public Library System is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009 was 9.17% of annual covered payroll. The contribution requirements of plan members are set by state statute. The contribution requirement for the Linebaugh Public Library System is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2010, the Linebaugh Public Library System's annual pension cost of \$73,129 to TCRS was equal to the Linebaugh Public Library System required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen initial liability 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 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 equities over a five-year period. The Linebaugh Public Library System'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.

Three year trend information is as follows:

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Year ending June 30, 2010	\$ 73,129	100.0%	\$ -
2009	\$ 67,543	100.0%	\$ -
2008	\$ 53,317	100.0%	\$ -

LINEBAUGH PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE D – PENSION PLAN (CONTINUED)

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 86.33% funded. The actuarial accrued liability for benefits was \$1.92 million, and the actuarial value of assets was \$2.22 million, resulting in an unfunded actuarial accrued liability(UAAL) of \$0.30 million. The covered payroll(annual payroll of active employees covered by the plan) was \$745,000, and the ratio of the UAAL to the covered payroll was 40.79%.

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)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2009	\$ 1,916	\$ 2,219	\$ 303	86.33%	\$ 744	40.79%
7/1/2007	\$ 1,740	\$ 2,022	\$ 282	86.05%	\$ 745	37.85%

NOTE E - ACCRUED VACATION

Accrued vacation carryover is based on years of service. An employee working 1-5 years can carryover 30 days, while 5-10 years is 36 days, 10-20 years is 39 days, and 20+ years is 42 days.

NOTE F - RISK MANAGEMENT

The Library System is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, natural disasters, injuries to employees, etc. The library system carries commercial insurance to cover significant losses. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the last three fiscal years.

LINEBAUGH PUBLIC LIBRARY SYSTEM

SCHEDULE OF FUNDING PROGRESS

(pension plan)

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2009	\$ 1,916	\$ 2,219	\$ 303	86.33%	\$ 744	40.79%
7/1/2007	\$ 1,740	\$ 2,022	\$ 282	86.05%	\$ 745	37.85%

The Governmental Accounting Standards Board(GASB) requires the plan to present 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 was a change made during the year of the most recent actuarial valuation date, therefore only the most current year is presented.

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

To the Board of Directors
Linebaugh Public Library System

We have audited the financial statements of the governmental activities, the discretely presented component unit and each major fund of the Linebaugh Public Library System as of and for the year ended June 30, 2010, and have issued our report thereon dated November 29, 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 Linebaugh Public Library System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Linebaugh Public Library System's control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Linebaugh Public Library System's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control 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 (Findings 2010-1 and 2010-2) that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Linebaugh Public Library System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

The Linebaugh Public Library System's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Linebaugh Public Library System's response and accordingly, we express no opinion on it.

This report is intended for the information of the board of directors, management and applicable federal, state and local authorities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Ramsey VanHorse & Feltz PLLC". The signature is written in a cursive, flowing style.

Murfreesboro, Tennessee
November 29, 2010

LINEBAUGH PUBLIC LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2010

Part I – Summary of Auditor Results

Type of report issue: unqualified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiency identified that are not considered material weakness Yes

Noncompliance material to financial statements noted: No

Part II – Financial Statement Finding

Finding 2010-1

Criteria- Bank reconciliation duties, cash disbursements and bank deposit duties should be segregated.

Condition- Bookkeeper currently prepares all checks and reconciles all accounts and makes the bank deposits.

Cause- Library system does not have enough staff to properly segregate such duties.

Effect- Errors or irregularities could occur and not be discovered in a timely manner.

Recommendation- Library Director could have bank statement sent directly to her from the bank to scan cancelled checks, etc and then also review the monthly bank reconciliations prepared by the bookkeeper. Consideration should be given to having another individual make the bank deposit.

Response- We feel the dual check signing by our treasurer and Library Director mitigates this to a large degree, and the Library Director does receive the bank statement directly and review it each month. Our limited staff may make it difficult to segregate the bank deposit duties, but we will consider assigning that responsibility to another person. We may consider having the Library Director review the bank deposits each month and compare the deposits to other internally produced records of cash receipts.

LINEBAUGH PUBLIC LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2010

Finding 2010-2

Criteria- Financial statements should be prepared in accordance with generally accepted accounting principles (GAAP).

Condition: Preparation of financial statements at end of year requires significant assistance from auditor to comply with generally accepted accounting principles.

Cause: Library staff does not have the training or expertise necessary to prepare financial statements in accordance with generally accepted accounting principles.

Effect: Library relies on auditor to adjust yearend books to comply with generally accepted accounting principles.

Recommendation: Management should consider putting in place procedures to enable the Library to prepare financial statements in accordance with generally accepted accounting principles.

Response: We do not believe it is practical for us to acquire the necessary expertise to prepare GAAP based financial statements. Our internal statements mainly reflect our cash transactions and are most meaningful to management and the board of directors to assist in operating the library. We do not believe we would see any significant benefit from being able to consistently produce GAAP basis reports.