CHESTER COUNTY LIBRARY

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JUNE 30, 2010

CHESTER COUNTY LIBRARY
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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INTRODUCTORY SECTION

CHESTER COUNTY LIBRARY
DIRECTORY
JUNE 30, 2010

BOARD MEMBERS

Janice Haithcoat
Harvette Croom
Jennifer Cronin
Wanda Black
Christine Bailey
Randle Fenimore
Ron Elder
Sandra Highers
Michael Phelps

MANAGEMENT TEAM

Nancy Canada, Library Director

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION

ALEXANDER THOMPSON ARNOLD PLLC

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Independent Auditor's Report

The Board of Directors
Chester County Library
Henderson, TN

We have audited the accompanying financial statements of the governmental activities and each major fund of Chester County Library (the Library), a component unit of Chester County, Tennessee, 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.

As discussed in Note 1A, the financial statements present only the Chester County Library and do not purport to, and do not, present fairly the financial position of Chester County, Tennessee, as of June 30, 2010, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, thereof and the respective budgetary comparison for the general fund, 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 March 29, 2011, 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.

Dyersburg, TN
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion 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 is the responsibility of management and was derived from and relates 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.

Alexander Thompson Arnold PLLC

Certified Public Accountants

Jackson, Tennessee
March 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Chester County 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 have 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 $206 thousand and exceeded liabilities in the amount of $201 thousand (i.e. net assets).
- Net assets increased $39 thousand during the current year.
- Revenues were $56 thousand, while expenses were $17 thousand which resulted in an increase in net assets of $39 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 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) the 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 independent auditor's report, the MD&A, and the financial statements with accompanying notes. The other supplementary section includes a schedule of expenditures of federal awards. 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 four governmental funds, a consolidated format has been used to present the fund statements and the government-wide statements with the reconciliation included as an additional column. The following statements are included in the financial statements of the Library:

The *Statement of Net Assets and Governmental 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 *Statement 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 $201 thousand at the close of the most recent fiscal year.

CONDENSED STATEMENT OF NET ASSETS

	June 30, 2010	June 30, 2009	$ Change	% Change
Current and other assets	$ 205,765	$ 163,516	$ 42,249	25.84%
Other liabilities	4,448	1,527	2,921	191.29%
Restricted	147,777	113,763	34,014	29.90%
Unrestricted	53,540	48,226	5,314	11.02%
Total net assets	$ 201,317	$ 161,989	$ 39,328	24.28%

Statement of Activities - Expenses in the governmental activities column exceeded revenues by $39 thousand. Financing sources increased substantially due to the increases in the fair market values of the investments in the endowment funds.

CONDENSED STATEMENT OF ACTIVITIES

	June 30, 2010	June 30, 2009	$ Change	% Change
Revenues	$ 56,324	$ 38,120	$ 18,204	47.75%
Expenditures	16,996	45,082	(28,086)	-62.30%
Change in net assets	39,328	(6,962)	46,290	-664.90%
Beginning net assets	161,989	168,951	(6,962)	-4.12%
Ending net assets	$ 201,317	$ 161,989	$ 39,328	24.28%

Some reclassifications were made to prior year amounts to accommodate current year presentation.

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 $4 thousand. The most significant change in revenues and other financing sources in the general fund was:

- A $3 thousand increase in rebate revenues, a product of a regional library agreement with the telephone service vendor which provides the Library with additional revenues.

Expenditures and other financing uses in the general fund decreased from last year by approximately $4 thousand. The most significant change in expenditures and other financing uses in the general fund was:

- A $7 thousand decrease in capital outlay.

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

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 Chester County Library, 1012 East Main Street, Henderson, TN 38340-1702.

CHESTER COUNTY LIBRARY

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET

JUNE 30, 2010

	Governmental Funds						
	General Fund	Clayton Endowment Fund	McAdams Endowment Fund	Bulliner Endowment Fund	Total	Adjustments (Note 3)	Statement of Net Assets
Assets							
Cash on deposit	$ 31,478	$ -	$ -	$ -	$ 31,478	$ -	$ 31,478
Cash on hand	100	-	-	-	100	-	100
Investments	26,410	45,582	45,582	56,613	174,187	-	174,187
Total Assets	$ 57,988	$ 45,582	$ 45,582	$ 56,613	$ 205,765	-	205,765
Liabilities							
Accounts payable	$ 4,448	$ -	$ -	$ -	$ 4,448	-	4,448
Fund Balances/Net Assets							
Fund Balances							
Reserved for:							
Permanent fund s	-	45,582	45,582	56,613	147,777	(147,777)	-
Unreserved, undesignated, reported in:							
General fund	53,540	-	-	-	53,540	(53,540)	-
Total Fund Balances	53,540	45,582	45,582	56,613	201,317	(201,317)	-
Total Liabilities and Fund Balances	$ 57,988	$ 45,582	$ 45,582	$ 56,613	$ 205,765		
Net Assets							
Restricted for permanent funds						147,777	147,777
Unrestricted						53,540	53,540
Total Net Assets						$ 201,317	$ 201,317

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

CHESTER COUNTY LIBRARY

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

FOR THE YEAR ENDED JUNE 30, 2010

	Governmental Funds						
	General Fund	Clayton Endowment Fund	McAdams Endowment Fund	Bulliner Endowment Fund	Total	Adjustments (Note 3)	Statement of Activities
Revenues							
Charges for services:							
Fines and fees	$ 10,963	$ -	$ -	$ -	$ 10,963	$ -	$ 10,963
Book fair and book sale	1,254	-	-	-	1,254	-	1,254
Operating grants and contributions:							
City contributions	4,012	-	-	-	4,012	-	4,012
Grants	1,200	-	-	-	1,200	-	1,200
Donations	1,360	-	-	20,000	21,360	-	21,360
General revenues:							
Investment earnings	995	6,745	6,746	523	15,009	-	15,009
Rebates	2,526	-	-	-	2,526	-	2,526
Total Revenues	22,310	6,745	6,746	20,523	56,324	-	56,324
Expenditures							
Circulation materials	3,416	-	-	-	3,416	-	3,416
Building and grounds	400	-	-	-	400	-	400
Capital outlay	2,209	-	-	-	2,209	-	2,209
General expenses	10,971	-	-	-	10,971	-	10,971
Total Expenditures	16,996	-	-	-	16,996	-	16,996
Excess (deficiency) of revenue over (under) expenditures/ Change in net assets	5,314	6,745	6,746	20,523	39,328	-	39,328
Fund Balance/Net Assets							
Beginning of the year	48,226	38,837	38,836	36,090	161,989	-	161,989
End of the year	$ 53,540	$ 45,582	$ 45,582	$ 56,613	$ 201,317	$ -	$ 201,317

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

CHESTER COUNTY LIBRARY

STATEMENT OF BUDGETARY COMPARISON

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2010

	Budget Original	Budget Amended	Actual	Variance Over (Under)
Revenue				
Book fines, donations, and miscellaneous	$ 19,992	$ 19,992	$ 10,963	$ (9,029)
City contributions	-	-	4,012	4,012
Interest income	840	840	995	155
Federal and/or state capital grant	3,648	3,648	1,200	(2,448)
Book sale	-	-	580	580
Rebates	-	-	2,526	2,526
Memorials	-	-	1,360	1,360
Scholastic book fair	-	-	674	674
Total Revenue	24,480	24,480	22,310	(2,170)
Expenditures				
Circulation materials:				
Book purchases	3,300	3,300	3,416	116
Building and grounds:				
Repairs and maintenance	-	-	400	400
Capital outlay	9,144	9,144	2,209	(6,935)
General expenditures:				
Office expense	636	636	-	(636)
Dues and publications	-	-	50	50
Professional fees	1,248	1,248	1,600	352
Supplies	3,732	3,732	2,909	(823)
Telephone	2,964	2,964	3,658	694
Promotionals	216	216	53	(163)
Software		-	259	259
Subscriptions	1,008	1,008	206	(802)
Postage		-	1,889	1,889
Miscellaneous	360	360	347	(13)
Total Expenditures	22,608	22,608	16,996	(5,612)
Excess (Deficiency) of Revenue Over (Under) Expenditures	$ 1,872	$ 1,872	5,314	$ 3,442
FUND BALANCE, JULY 1			48,226	
FUND BALANCE, JUNE 30			$ 53,540	

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

CHESTER COUNTY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Organization

The Chester County Library was formed in 1961 as a library with the responsibility of serving as a center of reliable information for the community; providing both opportunity and encouragement for self-education at all age levels; and providing books, materials, programs, services, and information conducive to education, inspiration, good citizenship, and the creative use of leisure time. The Board of Trustees consists of seven members appointed by the Chester County Court, the appointing officials. Also, the City Board and the County Court shall each appoint one of their members to serve as non-voting members of the Board.. The Trustees are to exercise legal responsibility for the Library, formulate policies and handle finances, including approval of the budget. The Trustees hire a Library Director who is responsible for the administration of the Library under the Trustees' direction.

In evaluating how to define the Chester County Library, for financial reporting purposes, management has considered the criteria set forth in the Governmental Accounting Standards Board (GASB), Statement No. 14, The Financial Reporting Entity. The elements of the financial reporting entity are the primary government and, under certain circumstances, a component unit. In general, a primary government has a separately elected governing body, is legally separate and is fiscally independent. The basic criterion for including a potential component unit within the reporting entity is where the primary government is financially accountable for the component unit.

The primary government is financially accountable if it appoints a voting majority of a component unit's governing body and either: 1) has the ability to impose its will on the component unit or 2) there is potential for the component unit to provide financial benefits or impose financial burdens on the primary government.

Based on these criteria, there are no component units of the Chester County Library. However, the Chester County Library is a component unit of Chester County, Tennessee, because both aforementioned conditions above have been met.

As a component unit of Chester County, Tennessee, after June 30, 2010, the Chester County Library will no longer independently issue an audit report but will be included in the general fund in the Chester County, Tennessee financial statements.

B. Reporting Entity

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

C. 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.

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

C. Government-wide and Fund Financial Statements (Cont.)

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.

The government-wide financial statements (i.e., the statements of net assets and the statement of activities) 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.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 financial resources of the Library except those required to be accounted for in another fund.
>
> The Clayton Endowment Fund, McAdams Endowment Fund, and Bulliner Endowment Fund are used to account for principal amounts received and related interest income, which may be used to supplement public funding from the City of Henderson and Chester County for the purchase of books, computers and other technology, equipment, media and material which are made available to the general public without charge. These funds are described in more detail in Note 8 and Note 9.

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, except endowment fund income, are considered to be measurable and available only when cash is received by the Library. Endowment fund income is considered as other financing sources (uses) as the investments increase (decrease) in fair market value.

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

D. 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 charges for services, investment earnings, donations, and grants.

E. Budgets and Budgetary Accounting

The Board approves the annual budget, which is adopted on a basis consistent with generally accepted accounting principles. The budget is used by management to analyze financial activity for the fiscal year. Their primary funding sources are charges for services, investment earnings, donations, and grants.

F. Deposits and Investments

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

Investments are considered to be any investment, such as a certificate of deposit, with a maturity date greater than three months.

The Library carries investments in marketable stock with readily determinable fair values, and investments in stock are reported at its fair value in the Statement of Net Assets and Balance Sheet. Unrealized gains and losses are included in the changes in net assets as increases (decreases) in the fair market value of investments. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. In the current period, there was an unrealized gain of $14,014.

G. Fund Equity

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

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

Adjustments to the governmental fund financial statements to reconcile to the government-wide statements generally include items such as long-term debt and capital assets since governmental fund financial statements report current financial resources measurement focus, thereby meaning that governmental fund financial statements exclude any items that do not consume current resources for the fulfillment of obligations.

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

Because the Library has no such reconciling items, like long-term debt, and because the Library's capital assets are accounted for by Chester County, there are no adjustments between the government-wide and governmental fund financial statements other than the reclassifying of net assets into the categories of restricted and unrestricted as discussed in Note 2G.

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 2F. 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 endowment fund investments in securities.

NOTE 5 - CAPITAL ASSETS

The Library's capital assets are accounted for by Chester County. Thus, neither the financial statements nor the notes present capital assets as they are presented as capital assets of Chester County. Accordingly, when purchasing capital assets, the Library adheres to the capitalization policy of Chester County.

NOTE 6 - EMPLOYMENT

The Library's employees are employed and compensated by Chester County. The Library does not account for payroll expenses independently but through Chester County; therefore, the Library follows Chester County's policies related to compensated absences and retirement plan participation.

NOTE 7 - INTERFUND TRANSFERS AND RECEIVABLES AND PAYABLES

There were no interfund transfers during the fiscal year ended June 30, 2010 or interfund receivables and payables as of June 30, 2010.

CHESTER COUNTY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010

NOTE 8 - INVESTMENTS

The following schedule summarizes the investments based on type for the fiscal year ended June 30, 2010:

	Balance 7/1/2009	Restricted Gift	Fair Market Value 6/30/2010	Gain/(Loss)
Clayton Endowment Fund	$ 38,837	$ -	$ 45,582	$ 6,745
McAdams Endowment Fund	38,836	-	45,582	6,746
Bulliner Endowment Fund	36,090	20,000	56,613	523
Total	$ 113,763	$ 20,000	$ 147,777	$ 14,014

The Library also has an eighteenth month certificate of deposit at Clayton Bank and Trust with a November 2010 maturity date in the amount of $26,410, as of June 30, 2010.

NOTE 9 - ENDOWMENT FUNDS

The Clayton Family Foundation made a donation of $100,000 to the Library on January 24, 2007. This money was used to establish two permanent endowment funds, the Ruth Clayton Fund and the Hayes and Virginia Dare McAdams Fund. These funds each received 50% of the initial donation, or $50,000 each. Clayton Bank and Trust donated an additional $20,000 on May 1, 2008, specifying that this amount be used to establish the Jack Bulliner Fund. An additional $20,000 is to be donated to the Jack Bulliner Fund annually until the fund reaches $100,000. The annual $20,000 donation to the Jack Bulliner Fund was made on May 3, 2010. These funds are invested in various securities through Clayton Bank and Trust of Henderson, TN, and, as of June 30, 2010, the total fair market value was $147,777. The Library's use of these funds is restricted by the donor. Annual distributions from the funds are limited to four and one-half percent of the three-year average principal value of the funds, or eight percent of the three-year average annual total return of the funds, whichever is less.

Principal distributions may be made periodically with the prior written consent of the Foundation. There were no distributions made in the fiscal year 2010.

NOTE 10 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis at June 30, 2010, were $147,777, as noted in Note 8, and are determined by reference to quoted market prices and other relevant information generated by market transactions. At present, the Library has no items carried or that will be carried at fair value on a non-recurring basis. The Library does not currently nor expects to have any non-financial assets or liabilities which could be carried at fair value.

The Library follows a standard policy of fair value measurement that defines fair value, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements. This standard clarifies the principle that fair value should be based on assumptions market participants would use when pricing the asset or liability and establishes a hierarchy that prioritizes information used to develop these assumptions. The hierarchy is as follows:

Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

CHESTER COUNTY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS (Cont.)
JUNE 30, 2010

Level 2 Inputs: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Such inputs may include quoted prices for similar assets or liabilities in active markets, and inputs other than quoted market prices that are observable for the assets and liabilities such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 Inputs: Unobservable inputs for determining fair values of assets and liabilities that reflect an entity's own assumptions about the assumptions that market participants would use pricing the assets and liabilities.

Restricted endowment fund investments are the only balance sheet components reported at fair value. They are all valued using Level 2 inputs. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and terms and conditions of bonds, and other factors. The following table summarizes financial assets and financial liabilities measure at fair value on a recurring basis as of June 30, 2010:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Clayton Endowment Fund	$ -	$ 45,582	$ -	$ 45,582
McAdams Endowment Fund	-	45,582	-	$ 45,582
Bulliner Endowment Fund	-	56,613	-	$ 56,613
Total	$ -	$ 147,777	$ -	$ 147,777

NOTE 11 - RESERVED FUND BALANCE

The fund balances of the Library Endowment Funds are reserved as their revenues must be expended in accordance with the requirement of the endowment funds from which it receives funding.

NOTE 12 - 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, Chester County carried insurance, on behalf of the Library, to cover all risks of loss. There have been no instances of loss or litigation noted in the past. There has also been no significant reduction in the amount of coverage.

OTHER SUPPLEMENTARY INFORMATION SECTION

CHESTER COUNTY LIBRARY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

Grant or Program	CFDA Number	Contract Number	(Receivable) Unspent 7/1/2009	Receipts	Expenditures	(Receivable) Unspent 6/30/2010
Institute of Museum and Library Services						
Passed through Tennessee State Library and Archives	45.310	30504-00510-14	$ -	$ 1,200	$ 1,200	$ -
Total Federal Awards			$ -	$ 1,200	$ 1,200	$ -

Basis of Presentation:
The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of the Chester County 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 independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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

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 Directors
Chester County Library
Henderson, Tennessee

We have audited the financial statements of the governmental activities and each major fund of the Chester County Library (Library), a component unit of Chester County, Tennessee, 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 March 29, 2011. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and recommendations to be material weaknesses. [10-01, 10-02, 10-04, 10-05, 10-6, and 10-07]

Dyersburg, TN
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

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. We consider the deficiencies described in the accompany schedule of findings and recommendations to be significant deficiencies. [10-03]

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 March 29, 2011.

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 Directors, management, others within the entity, the Comptroller of the Treasury, State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee
March 29, 2011

CHESTER COUNTY LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2010

CURRENT YEAR FINDINGS

10-01 INCOMPLETE SET OF BOOKS (Material Weakness)

Condition: The Library is using a personal finance software to manage its accounting and bookkeeping processes.

Criteria: The Library must be able to account for all of its operations during the fiscal year, including not only revenues and expenses but also assets, liabilities, and receivables so as to generate comprehensive basic financial statements such as the balance sheet and income statement to be used to review and evaluate performance and used for reporting purposes.

Effect: Due to inabilities created by the personal finance software, the Library could not provide the auditor with a complete set of books. The Library could only generate information related to its revenue and expense activity for the fiscal year.

Recommendation: The auditor recommends that the Library transition from using a personal finance software to a software with formal double-entry bookkeeping capabilities.

Response: The Library's bookkeeping will be taken over by Chester County, as the Library will be included in the general fund in the County's financial statements beginning in the 2011 fiscal year.

10-02 LACK OF SUPPORTING DOCUMENTATION FOR PAYMENT OF EXPENDITURES (Material Weakness)

Condition: Individual receipts are not maintained by the Library for purchases made on account or paid for with a credit card.

Criteria: The Library must maintain all supporting documentation to corroborate purchases made so as to adhere to its purchasing policy which requires invoices to be submitted as supporting documentation before payment.

Effect: The Library is paying for expenditures based on statements and do not have the accompanying individual receipts to support the charges on the statement which it is paying nor to review for appropriateness of purchases made on account or with a credit card.

Recommendation: The auditor suggests that the Library retain all individual receipts as supporting documentation to substantiate charges on monthly statements.

Response: The Library will attempt to maintain individual receipts to support monthly statements.

CHESTER COUNTY LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2010

10-03 LACK OF APPROVAL OF EXPENDITURES (Significant Deficiency)

Condition: Five instances in which approval for expenditures and subsequent disbursements were not documented.

Criteria: According to the Library's purchasing policy, disbursements exceeding $250.00 require Board approval.

Effect: By not documenting approval of expenditures, the Library is leaving itself vulnerable to the unauthorized disbursement of funds for non-business related expenditures.

Recommendation: The auditor suggests that the Library either document approval on the actual invoices themselves or retain approval documentation as to confirm authorization of disbursement of funds.

Response: The Library will better document approval of expenditures.

10-04 UNRECONCILED CASH (Material Weakness)

Condition: The Library's cash drawer is not being reconciled.

Criteria: The Library should be aware of exact cash drawer balances on a periodic basis, whether that be daily, weekly, or monthly.

Effect: The Library is unaware if all monies received are accounted for since it cannot attest to periodic beginning balances to forecast estimated ending balances on that same periodic basis based on collections as compared to actual ending balances. This leaves the Library susceptible to the possible misappropriation of funds received since the Library does not know what cash should be.

Recommendation: The auditor suggests that the Library perform a reconciliation of its cash drawer.

Response: The Library will begin reconciling this cash drawer.

10-05 UNRECORDED EXPENDITURES AND UNRECORDED REVENUES (Material Weakness)

Condition: The Library's practice for paying recurring expenditures and/or expenditures which do not require a check is to use monies from the cash drawer to fulfill these obligations.

Criteria: All expenditures should be recorded on the books; as well as, their related purchases and payments should follow the Library's set purchasing policy.

Effect: By paying expenditures directly from the cash drawer, the Library is understating its expenditures, since these disbursements are never reflected in the Library's accounts, and, in effect, is understating its revenues as well since these expenditures are deducted from the gross receipts in the cash drawer. This results in the misstatement of expenditure and revenue accounts on the Library's financial statements. Also, this practice leaves the Library susceptible to the payment of non-business related expenditures.

CHESTER COUNTY LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2010

10-05 UNRECORDED EXPENDITURES AND UNDERSTATED REVENUES (Material Weakness)

Recommendation: The auditor suggests that the Library discontinue the practice of paying expenditures in cash. By paying expenditures with checks, this creates a documentation trail that can be used as supporting documentation. In a double-entry accounting software, checks force the simultaneous recording of expenditures with the disbursement of funds.

Response: The Library will discontinue this practice by issuing checks for all disbursements and will record all expenditures and revenues at gross amounts as collected or paid.

10-06 LACK OF RECEIPTS (Material Weakness)

Condition: The Library does not issue receipts to document the collection of monies.

Criteria: Receipts should be issued for all transactions involving the collection of monies so as to verify that deposits of those monies are intact and made timely.

Effect: Because the Library cannot provide any evidence of monetary receipts other than the logs for fines and fees and for memorials, the auditor could not confirm that all monies received were deposited intact and timely. The auditor was unable to reconcile cash and checks received to deposits as there were no receipts to corroborate the composition nor total of the amounts of the deposits. Specifically, the auditor could not confirm the accurate accounting for Memorials revenues nor E-Rate Check revenues, because of the lack of documentation. By not issuing receipts, there is no supporting documentation for monies received creating an inability to determine if monies were deposited intact and timely. This lack of internal control creates the opportunity for the Library to be a victim of misappropriation of funds as there is no measure against which actual collections are compared to actual deposited funds.

Recommendation: The auditor suggests that the Library issue receipts for all monies collected other than fines and fees. For fines and fees since immaterial in amount, the auditor considers the Library's current practice of denoting these receipts on a cash drawer log appropriate.

Response: The Library will start issuing receipts for all collection of monies other than fines and fees. On the same note, the Library will continue its practice of denoting the collection of fines and fees on its cash drawer log.

10-07 IMPROPER BANK RECONCILIATIONS (Material Weakness)

Condition: The Library reconciles its operating bank account as of the bank statement date instead of the month end thus creating non-inherent cutoff discrepancies in its books. Additionally, the reconciliations are not performed in a timely nor accurate manner.

Criteria: Cash accounts should be reconciled in a timely and proper manner. The reconciliation should be compatible with the Library's bookkeeping as of significant cutoff dates such as the fiscal year end.

Effect: The Library cannot accurately determine its operating cash balance.

Recommendation: The auditor suggests that the Library's operating cash account should be reconciled in a more timely and proper manner such that the reconciled balance agrees to the book balance as of significant cut off dates and is comprehensive in that it includes all transactions.

CHESTER COUNTY LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2010

10-07 IMPROPER BANK RECONCILIATIONS (Material Weakness)

Response: The Library will attempt to contact its Bank to change its bank statement dates to month end dates so as to make reconciling the operating cash accounts as of significant cut-off dates unproblematic. The Library will also begin reconciling this account more timely and more accurately manner.

PRIOR YEAR FINDING

09-1 "Expenditures were over budget in total and on several line items." - Corrected.