LINEBAUGH PUBLIC LIBRARY SYSTEM

MURFREESBORO, TENNESSEE

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

LINEBAUGH PUBLIC LIBRARY SYSTEM

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DVF Dempsey Vantrease & Follis PLLC
Certified Public Accountants & Consultants

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, 2011, 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, 2011, 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 December 8, 2011 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
December 8, 2011

630 South Church Street • Murfreesboro, Tennessee 37130
P 615-893-6666 F 615-893-8047 www.dvf-pllc.com

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, 2011. This should be read in conjunction with the Library's financial statements which begin on page 7.

FINANCIAL HIGHLIGHTS

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 received last year.

- The Library net assets increased by $82,929 for the year compared to $251,092 last year
- The expenses for the year were $2.29 million compared to $2.23 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

	2011	2010
Cash and investments	$ 904,097	$ 828,263
Capital assets	1,079,972	1,046,160
Other	5,846	18,221
	1,989,915	1,892,644
Other liabilities	(103,758)	(89,416)
Net assets:		
Invested in capital assets	1,079,972	1,046,160
Unrestricted	798,342	703,063
Restricted for grants	7,843	54,005
	$ 1,886,157	$ 1,803,228

Net assets for the year increased by $82,929. 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

	2011	2010
Program revenues	$ 141,628	$ 133,613
Local government support	2,017,696	1,938,859
Other revenues	220,572	414,972
	2,379,896	2,487,444
Expenses:		
Payroll and benefits	1,408,140	1,385,204
Books and periodicals	8,543	9,291
Occupancy	242,625	226,884
Depreciation	440,664	431,579
Other costs	196,995	183,394
	2,296,967	2,236,352
Increase in net assets	$ 82,929	$ 251,092

The decrease in other revenues is primarily related to the Library receiving $274,055 less in grants than in 2010. Those grants were used to pay for RFID software (automated check out system) and equipment, books, computers, furnishings and other equipment. Government funding increased slightly from the previous fiscal year.

CAPITAL ASSETS

At the end of the fiscal year the Library had $1,079,972 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 $474,000 including books purchased or donated of $415,000. 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 2011 fiscal year with an approximate 5% increase in funding for FY2012.

LINEBAUGH PUBLIC LIBRARY SYSTEM

STATEMENT OF NET ASSETS

June 30, 2011

	Primary Governmental Fund	Component Unit-Linebaugh Library Foundation
ASSETS		
Cash and cash equivalents	$ 595,577	$ 184,330
Investments	308,520	-
Prepaid expenses	5,846	-
Capital assets, net of accumulated depreciation	1,079,972	-
TOTAL ASSETS	$ 1,989,915	$ 184,330
LIABILITIES		
Accounts payable	$ 3,061	$ -
Withheld payroll liabilities	23,854	-
Accrued vacation	76,843	-
TOTAL LIABILITIES	103,758	-
NET ASSETS		
Invested in capital assets	1,079,972	-
Unrestricted	798,342	121,165
Restricted for grant or other purposes	7,843	63,165
	1,886,157	184,330
TOTAL LIABILITIES AND NET ASSETS	$ 1,989,915	$ 184,330

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

	Primary Governmental Fund	Component Unit-Linebaugh Library Foundation
Expenses:		
Payroll and benefits	$ 1,408,140	$ -
Periodicals	8,543	-
Occupancy costs	242,625	-
Depreciation	440,664	-
Other operating costs	196,995	420
Total program expenses	2,296,967	420
Program Revenues	141,628	-
Net program expense	2,155,339	420
General Revenues:		
Local government support	2,017,696	-
Interest	12,138	34
Donated Books	184,930	-
Grant income	13,145	-
Miscellaneous public support	10,359	25
Total general revenues	2,238,268	59
Increase (decrease) in net assets	82,929	(361)
Net assets at beginning of year	1,803,228	184,691
Net assets at end of year	$ 1,886,157	$ 184,330

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM

GOVERNMENTAL FUND BALANCE SHEET

June 30, 2011

ASSETS

	Murfreesboro	Smyrna	Myrtle Lord	Eagleville	Total
Pooled cash and cash equivalents	$ 336,692	$ 207,271	$ 33,892	$ 17,722	$ 595,577
Pooled investments	163,530	144,990	-	-	308,520
Prepaid items	3,910	1,698	64	174	5,846
Total assets	$ 504,132	$ 353,959	$ 33,956	$ 17,896	$ 909,943

LIABILITIES AND FUND BALANCES

Accounts payable	$ 3,061	$ -	$ -	$ -	$ 3,061
Withheld payroll liabilities	23,854	-	-	-	23,854
	26,915				26,915
Fund balance					
Non spendable-prepaids	3,910	1,698	64	174	5,846
Restricted for grants	7,843	-	-	-	7,843
Unassigned	465,464	352,261	33,892	17,722	869,339
	477,217	353,959	33,956	17,896	883,028
Total liabilities and fund balance	$ 504,132	$ 353,959	$ 33,956	$ 17,896	$ 26,915

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

Fund balance	883,028
Capital assets used in governmental activities are not reported in the funds	1,079,972
Accrued vacation pay is not due in the current period and therefore is not reported in the funds	(76,843)
	$ 1,886,157

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM

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

Year Ended June 30, 2011

	Murfreesboro	Smyrna	Myrtle Lord	Eagleville	Total
Revenue					
City funds	$ 645,898	$ 217,945	$ 59,435	$ 14,141	$ 937,419
County funds	822,052	236,107	-	22,118	1,080,277
Gifts and memorials	7,798	2,275	70	215	10,358
Gifts from Library Foundation	-	-	-	-	-
Grant income	13,145	-	-	-	13,145
Interest income	6,685	4,832	310	310	12,137
Fines and miscellaneous	87,324	50,895	1,997	1,412	141,628
Total revenue	1,582,902	512,054	61,812	38,196	2,194,964
Expenditures					
Books purchased	155,760	63,893	7,086	3,035	229,774
Salaries	814,176	242,008	35,756	16,221	1,108,161
Payroll taxes	64,917	17,595	2,794	1,675	86,981
Retirement	51,501	12,531	-	-	64,032
Employee insurance	114,563	35,642	-	6,124	156,329
Utilities	74,540	36,897	-	1,286	112,723
Telephone	9,385	9,526	1,474	1,126	21,511
Supplies	24,712	6,026	1,048	627	32,413
Periodicals	5,208	2,033	1,302	-	8,543
Professional fees	4,187	2,160	338	338	7,023
Repairs and maintenance	95,473	28,119	-	744	124,336
Computer support and maintenance	25,816	10,790	3,034	1,328	40,968
Databases	23,541	11,151	4,956	1,652	41,300
Insurance	13,553	4,821	330	429	19,133
Miscellaneous	7,833	1,882	421	248	10,384
Postage and freight	4,345	1,639	9	-	5,993
Travel and meetings	87	128	-	38	253
Professional development	2,142	412	-	-	2,554
Collection agency	6,937	3,483	123	18	10,561
Grant expenses	55,236	-	1,788	-	57,024
Reading programs	9,415	3,592	210	-	13,217
Total expenditures	1,563,327	494,328	60,669	34,889	2,153,213
Excess revenue over expenditures	19,575	17,726	1,143	3,307	41,751
Fund balance - beginning of year	457,642	336,233	32,813	14,589	841,277
Fund balance - end of year	$ 477,217	$ 353,959	$ 33,956	$ 17,896	$ 883,028

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, 2011

Net change in governmental fund balances	$	41,751
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		33,813
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		7,365
Change in net assets of governmental activities	$	82,929

See notes to financial statements.

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 economic resources measurement focus and the accrual method of accounting which in general, requires that revenue be recorded when earned and expenses recorded when incurred. Governmental fund statements report using the economic resources measurement focus and 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.

Fund Equity – In the fund financial statements, the Library reports the following components of fund balance: *Nonspendable*- amounts that are not available to be spent or legally or contractually required to remain intact, *Restricted*- amounts that are restricted for certain purposes such as outside parties, and

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity(continued) *Unassigned*- all other amounts available for any purpose. When expenses are incurred for which restricted and unrestricted sources are available, it is the Library's policy to first apply restricted resources.

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 which is 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 at June 30, 2011:

Certificate of deposit F&M Bank, .5%, mature 11/24/11	$	102,760
Certificate of deposit F&M Bank, .5%, mature 11/24/11		102,760
Certificate of deposit First Bank, 2.00%, mature 4/28/2012		100,000
Certificate of deposit Region's Bank, 1.00%, mature 12/18/11		3,000
	$	308,520

NOTE B – CASH AND INVESTMENTS(CONTINUED)

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.

NOTE C – CAPITAL ASSETS

Capital assets changes for the year ended June 30, 2011 were as follows:

	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
Cost				
Furniture and equipment	$ 952,891	$ 14,617	$ -	$ 967,508
Computers and software	477,940	45,155	-	523,095
Vehicles	110,771	-	-	110,771
Books	5,705,521	414,705	182,346	5,937,880
	$ 7,247,123	$ 474,477	$ 182,346	$ 7,539,254
Accumulated Depreciation				
Furniture and fixtures	$ 635,195	$ 89,190	$ -	$ 724,385
Computers and software	427,585	11,891	-	439,476
Vehicles	99,836	9,667	-	109,503
Books	5,038,348	329,916	182,346	5,185,918
	$ 6,200,964	$ 440,664	$ 182,346	$ 6,459,282

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

NOTE D – PENSION PLAN (CONTINUED)

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, 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, 2011 was 8.84% 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, 2011, the Linebaugh Public Library System's annual pension cost of $64,032 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, 2009 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 3.0 percent annual rate of inflation (c) 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), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 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, 2009 was 6 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, 2011	$ 64,032	100.0%	$ -
2010	$ 73,129	100.0%	$ -
2009	$ 67,543	100.0%	$ -

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 percent funded. The actuarial accrued liability for benefits was $2.2 million, and the actuarial value of assets was $1.92 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 $0.70 million, and the ratio of the UAAL to the covered payroll was 40.79 percent.

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

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)

June 30, 2011

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)-Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
	(a)	(b)	(b - a)	(a/b)	(c)	((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, 2011, and have issued our report thereon dated December 8, 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 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 2011-1 and 2011-2) 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.

Dempsey Vantrease + Follis PLLC

Murfreesboro, Tennessee
December 8, 2011

630 South Church Street • Murfreesboro, Tennessee 37130
P 615-893-6666 F 615-893-8047 www.dvf-pllc.com

LINEBAUGH PUBLIC LIBRARY SYSTEM

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2011

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 2011-1

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 should have the 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 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.

Finding 2011-2

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 GAAP.
Cause:	Library staff does not have the training or expertise necessary to prepare financial statements in accordance with GAAP.
Effect:	Library relies on auditor to adjust year end books to comply with GAAP.
Recommendation:	Management should consider putting in place procedures to enable the Library to prepare financial statements in accordance with GAAP.
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.

LINEBAUGH PUBLIC LIBRARY SYSTEM

ROSTER OF OFFICIALS

June 30, 2011

Board of Directors

Bill Patterson	Chairman
Marilyn Castelli	Vice Chairperson
Gary E. Green	Treasurer
Christie Lee	Secretary
Melissa Batey	Member
Nell Blankenship	Member
Sherry Carpenter	Member
Kari Sostrom	Member
Richard Garvin, Jr.	Member
Betty Dixon	Member
Madelyn Scales Harris	Member
Dicken Kidwell	Member
Greg Lyles	Member
Chantho Sourinho	Member

Management

Rita Shacklett	Executive Director