
CHESTER COUNTY LIBRARY
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2011

**CHESTER COUNTY LIBRARY
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INTRODUCTORY SECTION

**CHESTER COUNTY LIBRARY
DIRECTORY
June 30, 2011**

BOARD MEMBERS

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

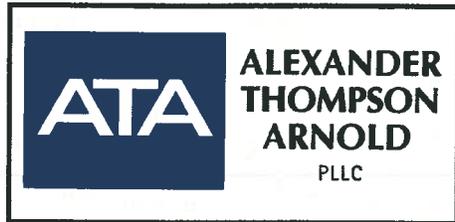
MANAGEMENT TEAM

Nancy Canada, Library Director

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION



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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 department of the general fund of Chester County, Tennessee, as of and for the year ended June 30, 2011, 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 referred to above 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, 2011, 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, 2011, and the respective changes in financial position, thereof, 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 January 14, 2013, on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion 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 basic 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.

A handwritten signature in black ink, appearing to read "Alexander Thompson" followed by some initials or a flourish.

Certified Public Accountants

Jackson, Tennessee
January 14, 2013

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, 2011. 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 \$243 thousand and exceeded liabilities in the amount of \$240 thousand (i.e. net assets).
- Net assets increased \$39 thousand during the current year.
- Revenues were \$55 thousand, while expenses were \$16 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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 \$240 thousand at the close of the most recent fiscal year.

CONDENSED STATEMENT OF NET ASSETS				
	June 30, 2011	June 30, 2010	\$ Change	% Change
Current and other assets	\$ 243,249	\$ 205,765	\$ 37,484	18.22%
Other liabilities	2,952	4,448	(1,496)	-33.63%
Restricted for permanent funds	184,157	147,777	36,380	24.62%
Unrestricted	56,140	53,540	2,600	4.86%
Total net assets	\$ 240,297	\$ 201,317	\$ 38,980	19.36%

Statement of Activities - Revenues in the governmental activities column exceeded expenses by \$39 thousand. Overall, financing sources increased due to the significant increase in the fair market value of the investment in the Bulliner Endowment Fund.

CONDENSED STATEMENT OF ACTIVITIES				
	June 30, 2011	June 30, 2010	\$ Change	% Change
Revenues	\$ 55,218	\$ 56,324	\$ (1,106)	-1.96%
Expenditures	16,238	16,996	(758)	-4.46%
Change in net assets	38,980	39,328	(348)	-0.88%
Beginning net assets	201,317	161,989	39,328	24.28%
Ending net assets	\$ 240,297	\$ 201,317	\$ 38,980	19.36%

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, unassigned 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 decreased from last year by approximately \$1 thousand. The most significant change in revenues and other financing sources in the general fund was:

- A \$3 thousand decrease in fines and fees, a product of the Library hosting an increased number of fine free months for its patrons to help to promote the usage of the Library.
- A \$1 thousand increase in donations caused by an increase in the number of donations made in memorandum.
- Also, the Clayton and McAdams endowment fund investments decreased in fair market value by \$4 thousand collectively, while the Bulliner endowment fund investment increased in fair market value by \$6 thousand, having a net \$2 thousand positive effect on revenues.

Expenditures and other financing uses in the general fund decreased from last year by approximately \$1 thousand. The most significant change in expenditures and other financing uses in the general fund was:

- A \$2 thousand decrease in the purchase of circulation materials.

A budget comparison schedule 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, 2011**

	<u>Governmental Funds</u>				<u>Total</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Assets</u>
	<u>General Fund</u>	<u>Clayton Endowment Fund</u>	<u>McAdams Endowment Fund</u>	<u>Bulliner Endowment Fund</u>			
Assets							
Cash on deposit	\$ 31,135	\$ -	\$ -	\$ -	\$ 31,135	\$ -	\$ 31,135
Cash on hand	100	-	-	-	100	-	100
Investments	47,857	50,557	50,557	63,043	212,014	-	212,014
Due from General Fund	-	-	-	20,000	20,000	(20,000)	-
Total assets	\$ 79,092	\$ 50,557	\$ 50,557	\$ 83,043	\$ 263,249	\$ (20,000)	\$ 243,249
Liabilities							
Accounts payable	\$ 2,952	\$ -	\$ -	\$ -	\$ 2,952	-	2,952
Due to Bulliner Endowment Fund	20,000	-	-	-	20,000	(20,000)	-
Total liabilities	22,952	-	-	-	22,952	(20,000)	2,952
Fund Balances/Net Assets							
Fund Balances							
Restricted	-	50,557	50,557	83,043	184,157	(184,157)	-
Unassigned	56,140	-	-	-	56,140	(56,140)	-
Total fund balances	56,140	50,557	50,557	83,043	240,297	(240,297)	-
Total liabilities and fund balances	\$ 79,092	\$ 50,557	\$ 50,557	\$ 83,043	\$ 263,249		
Net Assets							
Restricted for permanent funds						184,157	184,157
Unrestricted						56,140	56,140
Total net assets						\$ 240,297	\$ 240,297

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 Fiscal Year Ended June 30, 2011

	Governmental Funds				Total	Adjustments (Note 2)	Statement of Activities
	General Fund	Clayton Endowment Fund	McAdams Endowment Fund	Bulliner Endowment Fund			
Revenues							
Charges for services:							
Fines and fees	\$ 8,455	\$ -	\$ -	\$ -	\$ 8,455	\$ -	\$ 8,455
Book fair and book sale	289	-	-	-	289	-	289
Operating grants and contributions:							
City contributions	4,000	-	-	-	4,000	-	4,000
Grants	1,500	-	-	-	1,500	-	1,500
Donations	2,166	-	-	20,000	22,166	-	22,166
General revenues:							
Investment earnings	567	4,975	4,975	6,430	16,947	-	16,947
Rebates	1,805	-	-	-	1,805	-	1,805
Miscellaneous	56	-	-	-	56	-	56
Total revenues	18,838	4,975	4,975	26,430	55,218	-	55,218
Expenditures							
Circulation materials	1,645	-	-	-	1,645	-	1,645
Building and grounds	260	-	-	-	260	-	260
Capital outlay	2,745	-	-	-	2,745	-	2,745
General expenses	11,588	-	-	-	11,588	-	11,588
Total expenditures	16,238	-	-	-	16,238	-	16,238
Excess (deficiency) of revenue over (under) expenditures/ Change in net assets	2,600	4,975	4,975	26,430	38,980	-	38,980
Fund Balance/Net Assets							
Beginning of the year	53,540	45,582	45,582	56,613	201,317	-	201,317
End of the year	\$ 56,140	\$ 50,557	\$ 50,557	\$ 83,043	\$ 240,297	\$ -	\$ 240,297

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

CHESTER COUNTY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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.

As noted in the 2010 report, as a department of the general fund of Chester County, Tennessee, 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. This transition was postponed during fiscal year 2011 and will take into effect in fiscal year 2012.

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.

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

CHESTER COUNTY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 7 and Note 8.

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.

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.

CHESTER COUNTY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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 \$16,380.

G. Fund Equity

The Library implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, beginning with the fiscal year ended June 30, 2011. In accordance with GASB No. 54, fund balances are classified as follows:

Nonspendable: Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted: Amounts that can be spent only for specific purposes because the Library Charter, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed: Amounts that can be used only for specific purposes determined by formal action by the Board of Directors resolution. To be reported as committed, amounts cannot be used for any other purpose unless the Library takes the same highest level of action to remove or change the constraint.

Assigned: Amounts the Library intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned: Amounts that are available for any purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Library considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Library considers amounts to have been spent first out of committed funds, then assigned

CHESTER COUNTY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

funds, and finally unassigned funds, as needed, unless the Board of Directors or the finance committee has provided otherwise in its commitment or assignment actions.

NOTE 2 - 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.

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 1G and the elimination of interfund activity discussed in Note 6.

NOTE 3 - 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 1F. 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, 2011, the bank deposits were fully collateralized.

Investments for the Library are reported at fair value. All investments at June 30, 2011, consisted of certificates of deposit and endowment fund investments in securities.

NOTE 4 - 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 5 - 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.

CHESTER COUNTY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 - INTERFUND TRANSFERS AND RECEIVABLES AND PAYABLES

Interfund receivable and payable activity as of June 30, 2011 is as follows:

	General Fund	Bulliner Endowment Fund	Total
Due to	\$ -	\$ 20,000	\$ 20,000
Due from	(20,000)	-	(20,000)
	<u>\$ (20,000)</u>	<u>\$ 20,000</u>	<u>\$ -</u>

The composition of these interfund balances is a \$20,000 contribution to the Bulliner Endowment Fund that was erroneously credited by the bank to the General Fund's certificate of deposit instead. This error was not detected and corrected by the bank until January 2012.

There were no interfund transfers during the fiscal year ended June 30, 2011.

NOTE 7 - INVESTMENTS

The following schedule summarizes the investments based on type for the fiscal year ended June 30, 2011:

	Balance 7/1/2010	Restricted Gift	Due From (Note 6)	Value 6/30/2011	Gain/(Loss)
Clayton Endowment Fund	\$ 45,582	\$ -	\$ -	\$ 50,557	\$ 4,975
McAdams Endowment Fund	45,582	-	-	50,557	4,975
Bulliner Endowment Fund	56,613	20,000	(20,000)	63,043	6,430
Total	<u>\$ 147,777</u>	<u>\$ 20,000</u>	<u>\$ (20,000)</u>	<u>\$ 164,157</u>	<u>\$ 16,380</u>

The Library also has an eighteen month certificate of deposit at Clayton Bank and Trust with a November 2011 maturity date in the amount of \$47,857, as of June 30, 2011.

NOTE 8 - 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 April 25, 2011. These funds are invested in various securities through Clayton Bank and Trust of Henderson, TN, and, as of June 30, 2011, the total fair market value was \$164,157. 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.

CHESTER COUNTY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

Principal distributions may be made periodically with the prior written consent of the Foundation. There were no distributions made in the fiscal year 2011.

NOTE 9 - FAIR VALUE MEASUREMENTS

Fair values of investments measured on a recurring basis at June 30, 2010, were \$164,157, as noted in Note 7, 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.

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, 2011:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Clayton Endowment Fund	\$ -	\$ 50,557	\$ -	\$ 50,557
McAdams Endowment Fund	-	50,557	-	50,557
Bulliner Endowment Fund	-	63,043	-	63,043
Total	<u>\$ -</u>	<u>\$ 164,157</u>	<u>\$ -</u>	<u>\$ 164,157</u>

NOTE 10 - RESTRICTED FUND BALANCE

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

CHESTER COUNTY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 11 - 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, 2011, 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 BUDGETARY COMPARISON
GENERAL FUND**

For the Fiscal Year Ended June 30, 2011

	<u>Budget Original</u>	<u>Budget Amended</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenue				
Book fines, donations, and miscellaneous	\$ 19,992	\$ 19,992	\$ 8,455	\$ (11,537)
City contributions	-	-	4,000	4,000
Interest income	840	840	567	(273)
Federal and/or state capital grant	3,648	3,648	1,500	(2,148)
Book sale	-	-	289	289
Rebates	-	-	1,805	1,805
Memorials	-	-	2,166	2,166
Miscellaneous	-	-	56	56
Total revenue	<u>24,480</u>	<u>24,480</u>	<u>18,838</u>	<u>(5,642)</u>
Expenditures				
Circulation materials:				
Book purchases	3,300	3,300	1,645	(1,655)
Building and grounds:				
Repairs and maintenance	-	-	260	260
Capital outlay	9,144	9,144	2,745	(6,399)
General expenditures:				
Office expense	636	636	-	(636)
Dues and publications	-	-	195	195
Professional fees	1,248	1,248	2,900	1,652
Supplies	3,732	3,732	2,772	(960)
Telephone	2,964	2,964	2,941	(23)
Promotionals	216	216	-	(216)
Software	-	-	420	420
Subscriptions	1,008	1,008	352	(656)
Postage	-	-	1,904	1,904
Miscellaneous	360	360	104	(256)
Total expenditures	<u>22,608</u>	<u>22,608</u>	<u>16,238</u>	<u>(6,370)</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>\$ 1,872</u>	<u>\$ 1,872</u>	<u>2,600</u>	<u>\$ 728</u>
Beginning of the year			<u>53,540</u>	
End of the year			<u>\$ 56,140</u>	

See independent auditor's report.

CHESTER COUNTY LIBRARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

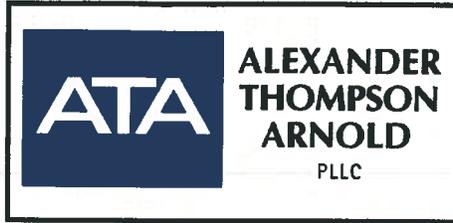
Grant or Program	CFDA Number	Contract Number	(Receivable) Unspent 7/1/2010	Receipts	Expenditures	(Receivable) Unspent 6/30/2011
Institute of Museum and Library Services Passed through Tennessee State Library and Archives Grants to States	45.310	30504-00311-19	\$ -	\$ 1,500	\$ 1,500	\$ -
Total federal awards			\$ -	\$ 1,500	\$ 1,500	\$ -

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, 2011. 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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**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 department of the general fund of Chester County, Tennessee, as of and for the year ended June 30, 2011 which collectively comprise the Library's basic financial statements, and have issued our report thereon dated January 14, 2013. 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

Management of the Library is responsible for establishing and maintaining effective 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 11-01]

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and recommendations as items 10-01, 10-02, 10-03, and 10-06.

We noted certain matters that we reported to management of the Library, in a separate letter dated January 14, 2013.

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.



Certified Public Accountants
Jackson, Tennessee
January 14, 2013

CHESTER COUNTY LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2011

CURRENT YEAR FINDINGS:

11-01 MATERIAL JOURNAL ENTRY (Material Weakness)

Condition: During the audit, the auditor had to adjust investments to fair market value in both the general funds and the individual endowment funds so as to reconcile their ending balances per the books to the ending balances per the bank.

Criteria: Management is responsible for the material accuracy of the accounting records so as to ensure that all materially significant activity is accounted for on the books so that the activities of the Library are fairly stated in all material respects to portray a reasonable depiction of the state of the Library's financial position at any given time to any user of the financial statements.

Effect: By not recording all material transactions, without the auditor's adjustment, the Library's financial statements would be materially misstated which would be misleading to users of any presentation of unadjusted interim financial statements.

Recommendation: The auditor suggests that the Library reconcile its investments to account for fair market value, and in that respect all accounts for material adjustments, so that interim financial statements are fairly stated.

Response: The Library will start reconciling investments specifically and also improve upon accounting for all significant transactions to ensure that the financial records are fairly stated in all material respects.

10-01 INCOMPLETE SET OF BOOKS (Material Weakness and Non-Compliance)

Condition: The Library is using a personal finance software to manage its accounting and bookkeeping processes. This inadequate software rendered the Library unable to produce a complete set of books which led, in part, to the Library's inability to detect a material banking error in a timely manner.

Criteria: According to Section 5-8-501 of Tennessee Code Annotated, "The state of Comptroller of the Treasury, with the approval of the governor, is required to devise a modern and effective bookkeeping and accounting system to be used by all county officials and agencies handling revenues of the state or its political subdivisions, and is to prescribe the minimum standards required under that system." It later states that each county and agency of the county is required to meet these standards. Thus, 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 2012 fiscal year.

CHESTER COUNTY LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2011

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

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

Criteria: In the County Purchasing Law of 1983 that was adopted in Tennessee Code Annotated as Section 5-14-204 it is stated that "A record of all such purchases shall be made by the person or body authorizing such purchases and shall specify the amount paid, the items purchase, and from whom the purchase was made." Thus, according to County policy, 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, as well as all other supporting documentation relating to disbursements. This could have been a result of the movement of documents from the Library to the County Office during the transition of the bookkeeping process, as well.

10-03 LACK OF APPROVAL OF EXPENDITURES (Significant Deficiency and Non-Compliance)

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

Criteria: Again as stated in the County Purchasing Law of 1983 (TCA Section 5-14-204), in relation to the approval of purchases, "A report of such purchases shall be made, at least monthly, to the county mayor and the governing body and shall include all items of information as required in the record."

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.

CHESTER COUNTY LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2011

Effect: The Library is not fully aware if all monies received are accounted for since it could not attest to periodic beginning balances to forecast estimated ending balances on that same periodic basis based on collections as compared to actual ending balances for most of the fiscal year. While the Library did make improvements in this area in response to prior year comments, the improvements did not satisfactorily alleviate the risks implied in this comment as not all forms of monies (i.e. checks and coins) received are being accounted for in the petty cash journal. 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.

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 has since discontinued 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 and Non-Compliance)

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

Criteria: In Title 5, Chapter 8 of the Tennessee Code Annotated it is stated that "each office...issues checks and receipts." Thus, according to County policy, 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. 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

CHESTER COUNTY LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2011

Library to be a victim to 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 as long as source of revenue (i.e. donation, book sale revenue, etc.) is indicated so as to appropriately be translated into the proper accounts for bookkeeping purposes.

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.

11-01 MATERIAL JOURNAL ENTRY (Material Weakness)

Condition: During the audit, the auditor had to adjust investments to fair market value in both the general funds and the individual endowment funds so as to reconcile their ending balances per the books to the ending balances per the bank.

Criteria: Management is responsible for the material accuracy of the accounting records so as to ensure that all materially significant activity is accounted for on the books so that the activities of the Library are fairly stated in all material respects to portray a reasonable depiction of the state of the Library's financial position at any given time to any user of the financial statements.

Effect: By not recording all material transactions, without the auditor's adjustment, the Library's financial statements would be materially misstated which would be misleading to users of any presentation of unadjusted interim financial statements.

Recommendation: The auditor suggests that the Library reconcile its investments to account for fair market value, and in that respect all accounts for material adjustments, so that interim financial statements are fairly stated.

Response: The Library will start reconciling investments specifically and also improve upon accounting for all significant transactions to ensure that the financial records are fairly stated in all material respects.

CHESTER COUNTY LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2011

PRIOR YEAR FINDINGS:

10-01 Incomplete Set of Books (Material Weakness) – Repeated

10-02 Lack of Supporting Documentation for Payment of Expenditures (Material Weakness) – Repeated

10-03 Lack of Approval of Expenditures (Significant Deficiency) – Repeated

10-04 Unreconciled Cash (Material Weakness) – Repeated

10-05 Unrecorded Expenditures and Unrecorded Revenues (Material Weakness) – Repeated

10-06 Lack of Receipts (Material Weakness) – Repeated

10-07 Improper Bank Reconciliations (Material Weakness) – Due to extenuating circumstances, reduced to Management Letter Comment