JACKSON-MADISON COUNTY LIBRARY

JACKSON, TENNESSEE

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JUNE 30, 2012

JACKSON-MADISON COUNTY LIBRARY
TABLE OF CONTENTS

Financial Section
Independent Auditor's Report 1

Management's Discussion and Analysis 3

Basic Financial Statements:
Government-wide Financial Statements:
Statement of Net Assets and Governmental Funds Balance Sheet 6
Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances 7
Statement of Budgetary Comparison-Major Fund 8
Notes to Financial Statements 9
Required Supplementary Information:
Schedule of Funding Progress 18

Other Supplementary Information
Detailed Schedule of Revenues, Expenditures and Changes in Fund Balance 19
Schedule of Officials 20

Internal Control and Compliance Section
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* 21

Schedule of Findings and Responses 23

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Independent Auditor's Report

Board of Trustees
Jackson-Madison County Library
Jackson, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund information of the Jackson-Madison County Library, Jackson, Tennessee (the Library) as of and for the year ended June 30, 2012, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Jackson-Madison County Library as of June 30, 2012, and the respective changes in financial position and the 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 November 14, 2012 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.

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Board of Trustees
Jackson-Madison County Library
Jackson, Tennessee

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress on pages 3 through 5 and page 18 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 opinions on the financial statements that collectively comprise the Jackson-Madison County Library's financial statements. The detailed schedule of revenue, expenditures, and changes in fund balance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information 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 detailed schedule of revenue, expenditures, and changes in fund balance is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jackson-Madison County Library's basic financial statements. The schedule of officials is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information 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
November 14, 2012

Management Discussion and Analysis

As management of the Jackson - Madison County Library (the Library), the board of trustees 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, 2012. All amounts, unless otherwise indicated, are expressed in actual dollars. A comparative analysis of key elements of total governmental funds has been provided.

FINANCIAL HIGHLIGHTS

The board of trustees believes the Library's financial condition is acceptable. The Library is still within its financial policies and guidelines set by the board and management. The following are key financial highlights.

- Total assets at year-end were $545 thousand and there were no liabilities at year end.
- Operating revenues were approximately $1.133 million, while operating expenses were $1.099 million which resulted in an increase in net assets of approximately $34 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the Library's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Library's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements are made up of three sections: 1) the financial section, 2) the supplementary section, and 3) the internal control and compliance section. The financial section includes the independent auditor's report, the MD&A, the financial statements with accompanying notes, and the required supplementary section. The supplementary section includes other information of the detailed schedule of revenues, expenditures, and changes in fund balance and the schedule of officials. The internal control and compliance section includes the report on internal control and compliance and the schedule of findings and responses.

REQUIRED FINANCIAL STATEMENTS

Due to the Library being composed of only two 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 Funds Balance Sheet* includes 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* presents 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.

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, there were no liabilities at year end so the assets exceeded liabilities by $545 thousand. A majority of the Library's net assets (96%) reflects its investment in capital assets (e.g., books, materials, and equipment).

CONDENSED STATEMENT OF NET ASSETS

	June 30, 2012	June 30, 2011
Current and other assets	$ 24,031	$ 19,067
Capital assets	520,640	439,120
Total assets	544,671	458,187
Invested in capital assets	520,640	439,120
Restricted for permanent fund	11,000	11,000
Unrestricted	13,031	8,067
Total net assets	$ 544,671	$ 458,187

Statement of Activities – Revenues in the governmental activities column exceeded expenses by $34 thousand.

CONDENSED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS

	June 30, 2012	June 30, 2011
Operating revenues	$ 1,133,237	$ 1,154,191
Operating expenditures	1,099,085	1,213,750
Change in net assets	34,152	(59,559)
Beginning net assets	458,187	303,882
Prior period adjustment	52,332	213,864
Beginning net assets, restated	510,519	517,746
Ending net assets	$ 544,671	$ 458,187

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 $21 thousand. The most significant changes in revenues and other financing sources in the general fund were:

- A $61 thousand decrease in city/county funding
- A $53 thousand increase in city/county capital expenditures
- A $12 thousand decrease in other revenues

Expenditures and other financing uses in the general fund decreased from last year by approximately $27 thousand. The most significant changes in expenditures and other financing uses in the general fund were due to the following net affects of these expenses changing:

- Capital expenditures increased by $53 thousand
- Library management services decreased by $76 thousand
- Grant expense decreased by $4 thousand

A budget comparison statement has been provided to demonstrate compliance with the budget. There were no significant variances from the budget to the actual amounts this year.

CAPITAL ASSET ADMINISTRATION

Capital Assets - At the end of the fiscal year, the Library had invested $521 thousand in a variety of capital assets.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Library's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Jackson-Madison County Library; 433 East Lafayette Street; Jackson, Tennessee 38301.

BASIC FINANCIAL STATEMENTS

JACKSON-MADISON COUNTY LIBRARY
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2012

	General Fund	Permanent Fund	Total	Adjustments (Note 3)	Statement of Net Assets
Assets					
Cash on deposit	$ 7,900	$ 15,896	$ 23,796	$ -	$ 23,796
Cash on hand	235	-	235	-	235
Capital assets (less accumulated depreciation)					
Books and materials	-	-	-	444,759	444,759
Equipment	-	-	-	75,881	75,881
Total assets	**$ 8,135**	**$ 15,896**	**$ 24,031**	520,640	544,671
Fund Balances/Net Assets					
Fund balances:					
Nonspendable - principal	$ -	$ 11,000	$ 11,000	(11,000)	-
Restricted - genealogical materials	-	4,896	4,896	(4,896)	-
Unassigned	8,135	-	8,135	(8,135)	-
Total fund balances	**$ 8,135**	**$ 15,896**	**$ 24,031**	(24,031)	-
Net Assets					
Invested in capital assets				520,640	520,640
Restricted for permanent fund				11,000	11,000
Unrestricted				13,031	13,031
Total net assets				**$ 544,671**	**$ 544,671**

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

JACKSON-MADISON COUNTY LIBRARY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For The Year Ended June 30, 2012

	General Fund	Permanent Fund	Total	Adjustments (Note 3)	Statement of Activities
Revenue					
Jackson-Madison County					
Joint appropriation	$ 903,354	$ -	$ 903,354	$ -	$ 903,354
On-behalf payments	133,295	-	133,295	-	133,295
Jackson-Madison County: Other	52,500	-	52,500	-	52,500
Other revenue	43,423	266	43,689	-	43,689
Gifts	399	-	399	-	399
Total revenue	1,132,971	266	1,133,237	-	1,133,237
Expenditures					
Capital expenditures	52,500	-	52,500	(52,500)	-
General expenditures	9,959	48	10,007	-	10,007
Library management	931,354	-	931,354	(97,476)	833,878
TCRS retirement expense	121,080	-	121,080	-	121,080
Fringe benefits	12,215	-	12,215	-	12,215
Summer reading program	1,117	-	1,117		1,117
Depreciation	-	-	-	120,788	120,788
Total expenditures	1,128,225	48	1,128,273	(29,188)	1,099,085
Excess (deficiency) of revenue over (under) expenditures	**4,746**	**218**	**4,964**	**29,188**	**34,152**
Net assets - beginning of the year	3,389	15,678	19,067	439,120	458,187
Prior period adjustment	-	-	-	52,332	52,332
Restated beginning of the year	3,389	15,678	19,067	491,452	510,519
Net assets - end of the year	$ 8,135	$ 15,896	$ 24,031	$ 520,640	$ 544,671

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

JACKSON-MADISON COUNTY LIBRARY
STATEMENT OF BUDGETARY COMPARISON-MAJOR FUND
GENERAL FUND
For The Year Ended June 30, 2012

	Budget Original	Budget Amended	Actual	Variance Over (Under)
Revenue				
City/County joint appropriation	$ 903,354	$ 903,354	$ 903,354	$ -
City/County capital expenditures	52,500	52,500	52,500	-
Other revenue	38,100	38,100	43,822	5,722
Total revenue	993,954	993,954	999,676	5,722
Expenditures				
Accounting	6,500	6,500	6,475	(25)
Insurance	2,100	2,100	2,100	-
Credit card fees	695	695	674	(21)
Computer hardware expense	700	700	608	(92)
Capital expenditures	52,500	52,500	52,500	-
Miscellaneous	105	105	102	(3)
Summer reading program	-	-	1,117	1,117
Library management	931,354	931,354	931,354	-
Total expenditures	993,954	993,954	994,930	976
Excess (deficiency) of revenue over (under) expenditures	**$ -**	**$ -**	**4,746**	**$ 4,746**
Fund balance - beginning of the year			3,389	
Fund balance - end of the year			$ 8,135	

Explanation of differences between inflows and outflows and GAAP revenues and expenditures

Inflows/revenues		
Actual amounts (budgetary basis)	$ 999,676	$ 5,722
Differences - budget to GAAP		
TCRS Retirement payment	121,080	121,080
Fringe benefits	12,215	12,215
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	1,132,971	139,017
Outflows/expenditures		
Actual amounts (budgetary basis)	994,930	976
Differences - budget to GAAP		
TCRS Retirement payment	121,080	121,080
Fringe benefits	12,215	12,215
Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	1,128,225	134,271
Net changes in fund balance	$ 4,746	$ 4,746

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

NOTE 1 - ORGANIZATION

The Jackson-Madison County Library (Library) is jointly funded by the City of Jackson, Tennessee, and the County of Madison, Tennessee. There are no other governmental units which are considered component units of the Library.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

The Library's financial statements have been prepared in conformity with accounting principles generally accepted as set forth in the pronouncements of the *Governmental Accounting Standards Board* (GASB). The following is a summary of the more significant accounting policies.

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statements of net assets and the statement of changes in net assets) report information on all of the operating activities of the library.

The statement of activities demonstrates the degree to which the direct expenses of the given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Separate financial statements are provided for governmental funds.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. 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 government 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.

Grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Library reports the following governmental funds:

The general fund is the library's primary operating fund. It accounts for all financial resources of the library, except those required to be accounted for in another fund.

The permanent fund is used to account for principal amounts received and related interest income, which may be used to provide genealogical resources to the patrons of the library. The Library's permanent fund is the Endowment fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

D. Assets, Liabilities, and Net Assets or Equity

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.

Capital Assets

Capital assets, which include equipment and furniture, are included in the government-wide financial statements. The Library land and building are titled to the City of Jackson, and therefore are not included in the Library's capital assets. Capital assets are defined by the Board as assets with an initial, individual (or group combined) cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Books are grouped by category, and depreciated by group. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the Library are depreciated using the straight line method over the following useful lives:

Books and materials	5 - 20 years
Furniture and fixtures	5 - 15 years
Machinery and equipment	3 - 20 years

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities.

In the fund financial statements, governmental funds show debt payments as current expenditures.

Fund Equity

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

A. Explanation of Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

Adjustments to the balance sheet of governmental funds to the statement of net assets includes the following items:

When capital assets (books, materials, furniture and equipment) that are to be used in governmental activities are purchased, the costs of those assets are reported as expenditures in the governmental funds. However, the statement of net assets includes those capital assets among the assets of the Library as a whole.

Cost of capital assets	$ 2,492,663
Accumulated depreciation	(1,972,023)
	$ 520,640

B. Explanation of Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities

The net change in fund balances of governmental funds differs from the change in net assets for governmental activities. The difference arises primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds.

When capital assets that are to be used in governmental activities are purchased, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Books and materials purchased	$ (149,976)
Depreciation expense	120,788
Difference	$ (29,188)

NOTE 4 – BUDGETS AND BUDGETARY ACCOUNTING

The Board of Trustees approves the annual budget, which is adopted on a basis consistent with generally accepted accounting principles, except for on behalf revenues and expenditures. This budget is approved by line item and used by management to analyze financial activity for the fiscal year ended June 30. Their primary funding source is appropriations from the local government, which are for twelve-month periods that coincide with the fiscal year. Due to the Library's dependency on local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding.

NOTE 5 – DEPOSITS

Custodial Credit Risk

The Library's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 2. State statute requires 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 at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2012 bank deposits were not in excess of collateralized or insured amounts.

NOTE 6 - ENDOWMENT FUND - PERMANENT FUND

The Library has received contributions that have been restricted by the donor. The principal is required to be invested. Only the interest earned can be used by the Library and it must be spent only on genealogical materials. This year, the funds were spent on genealogical books.

Principal contributions received	$ 11,000
Total interest earned since contribution less materials purchased	4,896
Total contributions	$ 15,896

NOTE 7 - RISK MANAGEMENT

The Library is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Library decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability, auto liability, errors and omissions and auto physical damage coverage. The Library joined the Tennessee Municipal League Risk Pool (Pool), which is a public entity risk pool established in 1979 by the Tennessee Municipal League. The pool is a cooperative risk sharing arrangement that works in many ways like a traditional insurer. The Library pays annual premiums to the Pool for its general liability, auto liability, real and personal property damage, workman's compensation and errors and omissions policies. The Pool provides the specified coverage and pays all claims from its member premiums charged or through its reinsurance policies. The Library's premiums are calculated based on its prior claims history.

It is the policy of the Library to purchase commercial insurance for the risks of employee dishonesty and excess liability. Settled claims have not exceeded this commercial coverage or the coverage provided by the Pool in any of the past three years. There have been no significant reductions in coverage.

NOTE 8 – PENSION FOOTNOTE DISCLOSURE

Plan Description

Employees of the Library are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Library participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The Library withdrew from TCRS effective November 1, 2006 because the entity was no longer eligible to participate in TCRS. Employees at the date of withdrawal will not accrue salary or service credit in TCRS after the date of withdrawal. The employer will continue to be responsible for the pension liability related to the affected employees and retirees for service accrued up to the date of withdrawal.

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.tn.gov/treasury/tcrs/PS/.

Funding Policy

The Library has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5 percent of annual covered payroll.

The Library is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 0.00% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Library is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2012, the Library's annual pension cost of $110,990 to TCRS was equal to the Library's required and actual contributions. The required contribution was determined

as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3 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 total investments over a ten-year period. The Library's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 18 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 110,990	100%	$ -
June 30, 2011	-	100%	-
June 30, 2010	131,170	100%	-

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 40.06% percent funded. The actuarial accrued liability for benefits was $2.04 million, and the actuarial value of assets was $0.82 million, resulting in an unfunded actuarial accrued liability (UAAL) of $1.22 million. The covered payroll (annual payroll of active employees covered by the plan) was $0.00 million, and the ratio of the UAAL to the covered payroll was 0.00% 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 decreasing over time relative to the AALs for benefits.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	$ 817	$ 2,040	$ 1,223	40.06%	$ -	0.00%
July 1, 2009	838	2,056	1,218	40.78%	-	0.00%
July 1, 2007	1,262	2,162	900	58.37%	-	0.00%

NOTE 9 - CAPITAL ASSETS

Fixed assets acquired in the General Fund are expensed when purchased. The assets on the government-wide financial statements include only those that have met the Board of Trustee's capitalization policy. The City of Jackson and Madison County budget for Capital Outlay by the library, and pays for the items so budgeted. LSSI also pays for a portion of these assets; in their contract, they will spend 20% of the library's budget in materials acquisition. Both City and County assets and LSSI assets are included in the Capital Asset account, if they meet the criteria.

The library land and building are titled to the City of Jackson and, therefore, are not in the Library's capital asset account. Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Ending Balance
Capital assets, being depreciated:			
Books and materials	$2,023,680	$ 97,476	$2,121,156
Equipment	319,007	52,500	371,507
Total capital assets	2,342,687	149,976	2,492,663
Less accumulated depreciation for:			
Books and materials	1,579,227	97,170	1,676,397
Equipment	272,008	23,618	295,626
Total depreciation	1,851,235	120,788	1,972,023
Governmental capital assets, net	$ 491,452	$ 29,188	$ 520,640

NOTE 10 – LIBRARY SYSTEMS & SERVICES, LLC (LSSI)

A. Definition and Agreement of LSSI

LSSI is a corporation dedicated to providing library-oriented automated systems and manual library support services. The Library entered into an agreement on October 9, 2006 with LSSI, with Services to commence on November 1, 2006. Services include all library management services, staffing, and ancillary services. The Jackson-Madison County Library Board (JMCLB) shall make available to LSSI all properties, facilities, equipment, collections, supplies, records, files and data used or useful in the operation of the Library. JMCLB reserves all ownership rights upon the termination or expiration of the Agreement.

B. Reimbursement For Expenses

LSSI shall be responsible for purchasing all materials, services, labor and any other items related to the annual budget for the Library. This responsibility of LSSI shall include handling all invoices and accounts payable associated with such expenditures. LSSI shall be reimbursed for expenditures on behalf of the Library only if such expenses have been authorized properly.

C. Asset Ownership

All property purchased by LSSI relating to the operation of the Library with funds provided by the JMCLB shall be deemed to have been purchased by LSSI as agent for the JMCLB, and title to same shall be vested in the JMCLB.

D. Pension Plan

LSSI provides a tax deferred 401(k) profit sharing plan to all qualifying employees. A qualifying employee can be defined as one who has completed one year of continuous services and has worked a minimum of 1,000 hours. All employees who meet these qualifications are eligible for this benefit.

NOTE 11 – JACKSON-MADISON COUNTY LIBRARY FOUNDATION

The purpose of the Jackson-Madison County Library Foundation (Foundation) is to benefit the Library; however, the Foundation has the following factors that distinguish it from being a component unit of the Library: separate corporate powers, board of directors independent of Library's management, and separate financial accountability. In addition, the Foundation is a legally separate, tax exempt entity with their own 501(c)(3) status. The Foundation raises funds to be used at the discretion of the board members and the Library does not have access to these funds. The Library may apply for a grant from the Foundation; this has a process where the Library Trustees fill out a grant request form and submit it to the Foundation's Board of Directors. This grant request is not automatically approved since the Foundation does have other non-profit entities they disburse funding to.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

The Library has a prior period adjustment of $52,332 for the year ending June 30, 2012. This adjustment was necessary because in the prior year, depreciation expense was overstated by this amount.

NOTE 13 – SUBSEQUENT EVENTS

The Board of Trustees of the Library voted to terminate the services of LSSI effective March 8, 2013. This would bring the operations of the Library back under the direct control of the Board of Trustees.

REQUIRED SUPPLEMENTARY INFORMATION

JACKSON-MADISON COUNTY LIBRARY
SCHEDULE OF FUNDING PROGRESS
June 30, 2012

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	$ 817	$ 2,040	$ 1,223	40.06%	$ -	0.00%
July 1, 2009	838	2,056	1,218	40.78%	-	0.00%
July 1, 2007	1,262	2,162	900	58.37%	-	0.00%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into affect during the year of the 2007 actuarial valuation, therefore only the three most recent valuations are presented.

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

JACKSON-MADISON COUNTY LIBRARY
GENERAL FUND
DETAILED SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
For The Year Ended June 30, 2012

Revenues	
Jackson-Madison County: Joint appropriations	$ 903,354
Jackson-Madison County: On-behalf payments	133,295
Jackson-Madison County: Capital expenditures	52,500
Copy machine revenue	5,695
Fines and penalties	23,660
Computer use and rental fees	1,293
Miscellaneous	1,934
Sale items	1,131
Jackson-Madison County Library Foundation	5,000
Local grant income	4,710
Gifts	399
Total Revenue	1,132,971
Expenditures	
Building and grounds:	
Capital expenditures	52,500
General expenditures:	
Accounting	6,475
Fees	674
Insurance	2,100
Miscellaneous	102
Summer reading program	1,117
Computer hardware expense	608
TCRS retirement expense	121,080
Fringe benefits	12,215
Library management	931,354
Total Expenditures	1,128,225
Excess (Deficiency) of Revenue Over (Under) Expenditures	**4,746**
Fund balance - beginning of the year	3,389
Fund balance - end of the year	$ 8,135

See independent auditor's report.

JACKSON-MADISON COUNTY LIBRARY
SCHEDULE OF OFFICIALS
June 30, 2012

Members of Board	Amount of Surety Bond
Mr. Brandon McWherter, Chair	
Ms. Terica Smith, Vice-Chair	
Mr. Robert Huffman, Treasurer	
Mr. Michael Stone	
Ms. Gwen Anthony	
Mr. Jerry Bastin	
Dr. Charles Baldwin	
Interim Director	
Arleen Griffin	$10,000*

*All employees are covered by a $10,000 blanket surety bond.

See independent auditor's report.

ALEXANDER THOMPSON ARNOLD PLLC

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AICPA Employee Benefit Plan Audit Quality Center
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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*

Board of Trustees
Jackson-Madison County Library
Jackson, Tennessee

We have audited the financial statements of the governmental activities and the major fund information of the Jackson-Madison County Library, Jackson, Tennessee (Library), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012. 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting: 12-01.

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.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 12-01.

We noted certain matters that we reported to management of the Library in a separate letter dated November 14, 2012.

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

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, and the Comptroller of the Treasury, State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Alexander Thompson Arnold PLLC

Certified Public Accountants
Jackson, Tennessee

November 14, 2012

JACKSON-MADISON COUNTY LIBRARY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

CURRENT YEAR FINDINGS

12-01 Expenditures Not Budgeted (Significant Deficiency and Noncompliance)

Condition: Expenditures for the Summer Reading Program were not budgeted in the current fiscal year. These expenditures totaled $1,117.

Criteria: All governmental Libraries must legally adopt a budget for their general fund and no expenditures should be made outside of those budgeted amounts.

Effect: Expenditures were not authorized or approved through the budgetary process.

Recommendation: We recommend that the budget cover all expenditures.

Response: These expenditures were from the end of the prior year; however, they were not recognized until the beginning of the current year. We will work to line up our expenditures in the proper time period to avoid expenditures not being budgeted.

PRIOR YEAR FINDINGS

None reported.