THE HAWKINS COUNTY LIBRARY SYSTEM

ROGERSVILLE, TENNESSEE

Financial Statements

June 30, 2012

THE HAWKINS COUNTY LIBRARY SYSTEM
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DAVID M. ELLIS
Certified Public Accountant

Member, American Institute of Certified Public Accountants

Member, Tennessee Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Library Board
The Hawkins County Library System
Rogersville, Tennessee

I have audited the accompanying financial statements of the governmental activities and each major fund of The Hawkins County Library System, as of and for the year ended June 30, 2012, which collectively comprise The Hawkins County Library System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Hawkins County Library System's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my 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 Hawkins County Library System, as of June 30, 2012, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America

In accordance with *Government Auditing Standards*, I have also issued a report dated March 21, 2013, on my consideration of The Hawkins County Library System's internal control over financial reporting and my 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 my 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 my audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 and budgetary comparison information on pages 20 through 21 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

David M. Ellis
Certified Public Accountant

March 21, 2013

THE HAWKINS COUNTY LIBRARY SYSTEM
BOARD MEMBERS AND MANAGEMENT
June 30, 2012

Stella Logan	Chairman
Earline Price	Secretary/Treasurer
Richard Burdette	Board
Kathy Campbell	Board
Tom Shelburne	Board
Connie Walters	Board
Gerri Pierce	Board
Eugene Harris	Board
Barbara Combs	Board
Eileen Queener	Director
Maureen McDaniel	Manager-Church Hill
Melissa Montgomery	Manager-Surgoinsville

Management's Discussion and Analysis

Our discussion and analysis of The Hawkins County Library System's (Library) financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Library's financial statements, which immediately follow this section.

Financial Highlights

- The Library's assets exceeded its liabilities by $342,216 (net assets). Of this amount, $107,820 represented unrestricted net assets.
- The Library's total net assets decreased by $13,447.
- The Library's governmental funds reported combined ending fund balances of $206,882 this year, a decrease of $16,438.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the Library as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Library's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the Library as a whole. These statements include the financial activities of the primary government and the Library currently does not hold any fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Library that are governmental in nature and those that are considered to be business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services. The Library does not currently have any business-type activities.

The Statement of Net Assets presents the financial condition of the governmental activities of the Library at year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program, or departments and, therefore, are clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are classified as program revenues are presented as general revenues of the Library with certain limited exceptions. The comparisons of direct expenses with program revenues identify the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

Assets of the Library are comprised of furniture and equipment along with collections (library books) owned by the Library. The Library Director performs an inventory and evaluation of assets at year end.

Fund Financial Statements

The Library uses governmental funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Governmental Funds – Governmental funds are those through which most governmental functions of the Library are financed. Governmental funds reporting focuses on the sources, uses, and balances of current financial resources. Expendable as sets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The following are the Library's major governmental funds:

- Library Operating Fund – This fund is the general operating fund of the Library. It is used to account for all financial resources, except those required to be accounted for in another fund.
- Library Contingency/Grant Fund – This fund is used to accumulate funds set aside by the Library to fund future contingency and capital project items and to maintain control of items which have been restricted to their use by the donor or grantor, or by the Library Board.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Library's government-wide and fund financial statements.

Government-Wide Financial Analysis

The following tables present comparative financial information.

Summary of Net Assets

The following summarizes the net assets of the Library at June 30, 2012.

	2012	2011
Cash	$ 215,218	$ 232,689
Receivables	0	0
Capital Assets, Net	135,334	132,343
Total Assets	350,552	365,032
Accounts Payable/Accrued Expenses	5,250	7,053
Accrued Compensated Absences	3,086	2,316
Current Liabilities	0	0

Total Liabilities	$ 8,336	$ 9,369
Net assets		
Capital Assets	135,334	132,343
Restricted	99,062	115,210
Unrestricted	107,820	108,110
Total Net Assets	$ 342,216	$ 355,663

Summary of Changes in Net Assets

The following is an analysis of the changes in net assets for the year ended June 30, 2012. Generally speaking, the Library's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Library or through external restrictions imposed by creditors, grantors or laws/regulations of other governments. A summary of the governmental activities follows:

	2012	2011
Revenue		
County & City Government Contributions	$ 269,555	$ 269,555
Interest Income	3,674	3,597
Donations	12,020	6,972
Charges for Services	24,361	23,559
Grants	0	43,466
Total Revenue	309,610	347,149
Library Operations	323,057	306,367
Net Change in Assets	-13,447	40,782
Net Assets, Beginning	355,663	314,881
Net Assets, Ending	$ 342,216	$ 355,663

Financial Analysis of Library Funds

As noted earlier in the report, the Library uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements.

Governmental Funds – The Library maintains two governmental funds, the Library Operating Fund and the Contingency/Grant Fund which accounts for funds set aside for future use and for revenues restricted as to use by grantors or donors or by the Library Board.

The Library's Operating Fund ended the year with a fund balance of $107,820 which was a $20,673 decrease from the prior balance. The Library Operating Fund's revenues were $305,375 while expenditures totaled $326,048, resulting in a $20,673 negative change in fund balance.

The Contingency/Grant Fund ended the year with a fund balance of $99,062.

Capital Assets and Debt Administration

Capital assets are defined by the Library as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. The Library's improvements are capitalized, i.e. depreciated. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. An expanded and detailed presentation of capital assets may be seen in Note 3 of the Notes to Financial Statements.

The Library has no outstanding debt issues at June 30, 2012.

Economic Factors

The Library is primarily supported by area local governments providing annual contributions to the Library. This past year, approximately 87% of the total revenues were from these local governments: Hawkins County and the Towns of Rogersville, Church Hill, and Surgoinsville, Tennessee. As these funds comprise the majority of the revenues, the Library sets its budget based on the amount of funds appropriated each year by these local governments. There are no significant changes in the local government contributions to the Library in the next fiscal year. However, if these local government contributions were reduced, they would have a significant impact on the operations of the Library.

Requests for Information

This financial report is designed to provide a general overview of 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 Library Director of The Hawkins County Library System, 407 East Main Street, Rogersville, TN 37857.

THE HAWKINS COUNTY LIBRARY SYSTEM
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities
ASSETS	
Current Assets	
Cash in banks	$ 116,156
Cash in banks - restricted	99,062
Capital assets net of depreciation	135,334
Total Assets	350,552
LIABILITIES	
Accounts payable/Accrued expenses	5,250
Accrued compensated absences due within one year	3,086
Deferred grant revenue	-
Total Liabilities	8,336
NET ASSETS	
Investments in capital assets	135,334
Restricted for capital projects	99,062
Unrestricted	107,820
Total Net Assets	$ 342,216

The accompanying notes to financial statements are an integral part of this statement.

THE HAWKINS COUNTY LIBRARY SYSTEM
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Total Governmental Activities
Governmental Activities:					
Library	$ 323,057	$ 24,361	$ 12,020	$ -	$ (286,676)
GENERAL REVENUES					
Local government appropriations					269,555
Interest income					3,674
Total General Revenues					273,229
Change in Net Assets					(13,447)
Net Assets - July 1, 2011					355,663
Net Assets - June 30, 2012					$ 342,216

The accompanying notes to financial statements are an integral part of this statement.

THE HAWKINS COUNTY LIBRARY SYSTEM
BALANCE SHEET-GOVERNMENTAL FUNDS
June 30, 2012

	Operating Fund	Contingency/ Grant Fund	Total Governmental Funds
ASSETS			
Cash	$ 105,414	$ 4,974	$ 110,388
Certificate of Deposit	-	87,999	87,999
Petty Cash Checking	10,742	-	10,742
Cash in Bank - Savings	-	6,089	6,089
Total Assets	$ 116,156	$ 99,062	$ 215,218
LIABILITIES			
Accounts Payable/Accrued Expenses	$ 5,250	$ -	$ 5,250
Accrued Compensated Absences - Current	3,086	-	3,086
Deferred Grant Revenue	-	-	-
Total Liabilities	8,336	-	8,336
FUND BALANCES			
Nonspendable	-	-	-
Restricted for:			
Contingency/Capital Projects	-	99,062	99,062
Committed			
Assigned	-	-	-
Unassigned	107,820	-	107,820
Total Fund Balance	107,820	99,062	206,882
Total Liabilities and Fund Balance	$ 116,156	$ 99,062	$ 215,218

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

Fund Balances - Total Governmental Funds		$ 206,882
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund. Capital assets at year end consist of:		
Capital asset cost	1,088,295	
Capital asset accumulated depreciation	(952,961)	135,334
Net Assets of governmental activities		$ 342,216

The accompanying notes to financial statements are an integral part of this statement.

THE HAWKINS COUNTY LIBRARY SYSTEM
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	Operating Fund	Contingency/ Grant Fund	Total Governmental Funds
REVENUE			
Town of Rogersville	$ 107,000	$ -	$ 107,000
Hawkins County	94,000	-	94,000
Town of Church Hill	50,055	-	50,055
Town of Surgoinsville	18,500	-	18,500
Charges for Services	24,361	-	24,361
Interest Income	584	3,090	3,674
Donations/Other	8,084	1,145	9,229
Grants	2,791	-	2,791
Total Revenue	305,375	4,235	309,610
EXPENDITURES			
Salaries/Benefits/Taxes	218,292	-	218,292
Plant & Operations/Insurance	23,690	-	23,690
Supplies/Postage/Programs	13,165	-	13,165
Books/Audiovisuals/Periodicals	31,799	-	31,799
Travel/Dues/Training	1,384	-	1,384
Professional Fees/Bonding	4,393	-	4,393
Miscellaneous	2,476	-	2,476
Automation/Supplies/Capital Outlay	30,849	-	30,849
Total Expenditures	326,048	-	326,048
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ (20,673)	$ 4,235	$ (16,438)
Fund Balance, July 1, 2011	128,493	94,827	223,320
Fund Balance, June 30, 2012	$ 107,820	$ 99,062	$ 206,882

Amounts reported for governmental activities in the statement of activites are different because:	
Net change in fund balances -- total governmental funds	$ (16,438)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Current period depreciation expense is $28,808.	2,991
Change in net assets of governmental activities	$ (13,447)

The accompanying notes to financial statements are an integral part of this statement.

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of The Hawkins County Library System conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Private-sector standards of accounting issued after November 30, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Description of Library's Operations

The Hawkins County Library System (Library) was established to maintain and operate public libraries in Hawkins County, Tennessee. The Library operates under the supervision and control of a Board. All activities over which the Library exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity. The Library has no potential component units which would be included in the reporting entity of The Hawkins County Library System.

B. Basis of Presentation

The Library's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements – The statement of net assets and the statement of activities display information about the Library as a whole. For the most part, the effect of interfund activity has been removed from the statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net assets presents the financial condition of the governmental activities of the Library at year end. The statement of activities presents comparison between direct expenses and program expenses for each program or function of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Library, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

Fund Financial Statements – During the year, the Library segregates transactions related to certain Library functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Library at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column.

C. Fund Accounting

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary. For the year ending June 30, 2012, the Library had only governmental funds.

Governmental Funds

Governmental funds are those through which all governmental functions of the Library are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental funds assets and liabilities is reported as fund balance. The following are the Library's major governmental funds:

- Library Operating Fund – This fund is the general operating fund of the Library. It is used to account for all financial resources, except those required to be accounted for in another fund.
- Library Contingency/Grant Fund – This fund is used to accumulate funds set aside by the Library Board to fund future items for capital projects and various restricted grants received.

D. Measurement Focus

Government-Wide Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Library are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial

statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions
Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Library, available means expected to be received within sixty days after year end.

Nonexchange transactions, in which the Library receives value without directly giving equal value in return, include grants and donations. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Library must provide local resources to be used for specified purpose; and expenditure requirements, in which the resources are provided to the Library on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Revenues susceptible to accrual are interest earnings, local government appropriations earned, and grants. Fines, penalties, and other revenues are not susceptible to accrual because they are not generally measurable until received in cash.

Expenses/Expenditures
On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is

incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

F. Budgets and Budgetary Accounting

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

The Library director submits to the Board a proposed operating budget which includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the statement of revenue, expenditures and changes in fund balances. The Library director budgets for the operating fund each year and for the contingency/grant fund in the years when grants are earned or when expenditures are budgeted.

Budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The Library does not maintain a formalized encumbrance accounting system.

G. Cash and Cash Equivalents

For presentation on the financial statements, the Library's cash and cash equivalents consist solely of checking, savings, and short-term certificates of deposit. The Library has no other types of investments. See Note 2 regarding cash in bank disclosures.

H. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". Interfund balances with governmental activities are eliminated on the government-wide statement of net assets. At June 30, 2012, there were no interfund receivables and payables.

I. Capital Assets

General Fund – Capital assets acquired with governmental fund resources are accounted for as capital expenditures and are not capitalized in the governmental fund financial statements.

In the government-wide financial statements, capital assets are capitalized and depreciated in those funds over their estimated useful lives.

Capital Assets are defined by the Library as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year for furniture, equipment, and improvements. Such assets are recorded at

historical cost or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at their estimated fair value on the date of donation. The collection of library books and materials are capitalized on an annual basis as one unit cost based on historical cost or estimated historical cost based on the average cost per book.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Furniture and equipment	10 years
Collections – library books and materials	10 years

J. Compensated Absences

It is the policy of the Library not to accrue for vacation since any compensated time off for the regular employees is earned on a fiscal year basis and must be taken by June 30th of each year because no carryover is allowed. However, sick pay can be accumulated up to 100 hours per employee at June 30th which is subject to carryover. This has been accrued at June 30, 2012.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable financial resources. However, bonds and other long-term obligations, and claims and judgments that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year. At June 30, 2012, the Library had no long-term debt other than compensated absences for sick pay due within one year.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Library or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as needed.

M. Governmental Fund Balance Reserves

The Library reserves those portions of governmental fund balances which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. The Library's highest level of decision-making authority is the Library Board. This board may establish, modify, or rescind committed or assigned fund balances by majority vote. When expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Library's policy to use unassigned resources first, then assigned and committed resources as needed.

N. Use of Estimates

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

O. Post Employment Benefits

The Library offers no post-employment benefits for employees in the form of retirement or health benefits.

NOTE 2 – CASH IN BANKS

The Library has no formal policies with respect to deposits and investments; however, it is required to follow procedure allowed by applicable state laws. At June 30, 2012, the Library had complied with applicable state laws as all cash funds were held in local financial institutions in the form of demand deposits, savings accounts or certificates of deposit. Furthermore, the state requires that all deposits with financial institutions be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. Deposits must be covered by the Library's agent in the Library's name, or by the Federal Reserve Bank acting as third party agents.

As of June 30, 2012, the carrying amount of the Library's deposits was $215,218 and the respective bank balances totaled $227,275. The difference between the two represented deposits in transit, outstanding checks, or other reconcilable items. As of June 30, 2012, the total bank balance of $227,275 was covered by FDIC insurance.

At June 30, 2012, the following accounts were restricted:

Church Hill Building Fund	$ 4,974
Building Fund	5,270
Memorial Fund	819
Certificates of Deposit (for capital projects)	87,999
Total	$ 99,062

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

Capital Assets Being Depreciated:	Beginning Balance	Increases	Decreases	Ending Balance
Furniture and Equipment	$ 171,048	$ -	$ -	$ 171,048
Collections-Library Books	941,053	31,799	55,605	917,247
Subtotal	1,112,101	31,799	55,605	1,088,295
Less: Accumulated Depreciation For:				
Furniture and Equipment	161,970	2,308	0	164,278
Collections-Library Books	817,788	26,500	55,605	788,683
	979,758	28,808	55,605	952,961
Capital Assets - Net of Depreciation	$ 132,343	$ 2,991	$ -	$ 135,334

Depreciation was charged to the Library program in the amount of $28,808. The Library has a policy to remove a minimum of 5% of the books and audiovisuals each year.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

The Library receives a substantial amount of its support from local governments. A significant reduction in the level of support, if this were to occur, may have an effect on the Library's programs and activities.

NOTE 5 – RISK MANAGEMENT

The Library manages risk through commercial insurance policies designed to minimize exposure. There have been no significant reductions in insurance coverage and there were no settlement amounts which exceeded insurance coverage for the current year or the three prior years.

NOTE 6 – CONTRIBUTED FACILITIES

The Library occupies, without charge, certain premises located in government owned buildings. The fair rental value of the premises is not reported as revenue nor has the expense been shown in the financial statements, as fair market value was not determinable.

NOTE 7 – GRANT ACTIVITY

In the previous year, the Library was awarded one federal grant passed through the Tennessee Department of Library and Archives. Grant # 30504-00510 for $2,500 was a Technology Grant. This federal grant was awarded by the US Institute of Museum & Library Services under CFDA #45.310. The grant period for the Technology Grant is April 1, 2011 through August 31, 2011. The Library also was awarded two federal grants through the Tennessee Department of Library and Archives in the amount of $18,983 each. One grant was awarded to HB Stamps and the other to Church Hill for the purchase of a small computer lab. The grant period is November 1, 2010 through January 1, 2013.

NOTE 8 – JOINT VENTURE

The Library is funded by contributions from Hawkins County and the municipalities of Rogersville, Church Hill, and Surgoinsville. The Library Board is managed by seven members on the local board and two members of the Nolichucky Regional Library Board. Of the seven local board members, three are appointed by the Hawkins County Commission, and the municipalities of Rogersville, Church Hill, and Surgoinsville appoint one member each while one member at large is jointly appointed.

In the current year these governmental entities contributed the following amounts:

Hawkins County	$ 94,000
Rogersville	107,000
Church Hill	50,055
Surgoinsville	18,500
	$ 269,555

NOTE 9 – OPERATING FUND – BUDGETED EXPENDITURES VERSUS ACTUAL EXPENDITURES – OPERATING & CONTINGENCY/GRANT FUND

For the year ending June 30, 2012, the Library adopted a budget for the operating fund and no budget was adopted for the contingency/grant fund. In addition, no amendments were made to the original budget document. As a result, actual expenditures exceeded original budgeted expenditures as follows:

	Budgeted Expenditures	Actual Expenditures	Over Budget
Operating Fund	$282,930	$326,048	-43,118
Contingency/Grant Fund	0	0	0

With respect to line item totals in the funds, the following line item expenditure amounts exceeded the budgeted amounts:

Operating Fund	Budgeted Expenditures	Actual Expenditures	Over Budget
Plant & Operations	22,578	23,690	-1,112
Supplies/Postage	0	13,165	-13,165
Books/Audio-Visuals	24,500	31,799	-7,299
Travel/Training	500	1,384	-884
Automation/Supplies	8,740	33,325	-24,585

NOTE 10 – SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated subsequent events through March 21, 2013, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
OPERATING FUND
For the Year Ended
June 30, 2012

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUE				
Town of Rogersville	$ 107,000	$ 107,000	$ 107,000	$ -
Hawkins County	94,000	94,000	94,000	-
Town of Church Hill	50,055	50,055	50,055	-
Town of Surgoinsville	18,500	18,500	18,500	-
Charges for Services	15,000	15,000	24,361	9,361
Interest Income	-	-	584	584
Donations/Other	-	-	8,084	8,084
Grants	-	-	2,791	2,791
Total Revenue	$ 284,555	$ 284,555	$ 305,375	$ 20,820
EXPENDITURES				
Salaries/Benefits/Taxes	$ 221,535	$ 221,535	$ 218,292	$ (3,243)
Plant & Operations/Insurance	22,578	22,578	23,690	1,112
Supplies/Postage/Programs	-	-	13,165	13,165
Books/Audiovisuals/Periodicals	24,500	24,500	31,799	7,299
Travel/Dues/Training	500	500	1,384	884
Professional Fees/Bonds	5,077	5,077	4,393	(684)
Automation/Supplies/Other	8,740	8,740	33,325	24,585
Total Expenditures	282,930	282,930	326,048	43,118
Revenues Over (Under) Expenditures	$ 1,625	$ 1,625	$ (20,673)	$ (22,298)
Other Financing Sources (Uses)	$ -	$ -	$ -	$ -
Net Change in Fund Balance	1,625	1,625	(20,673)	(22,298)
Fund Balance, July 1, 2011	128,493	128,493	128,493	-
Fund Balance, June 30, 2012	$ 130,118	$ 130,118	$ 107,820	$ (22,298)

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CONTINGENCY/GRANT FUND
For the year ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUE				
Interest Income	-	-	3,090	(3,090)
Donations	-	-	1,145	(1,145)
Grants	-	-	-	-
Total Revenues	$ -	$ -	$ 4,235	$ 4,235
EXPENDITURES				
Automation	-	-	-	-
Revenues Over (Under) Expenditures	$ -	$ -	$ 4,235	$ 4,235
Other Financing Sources (Uses)				
	$ -	$ -	$ -	$ -
Net Change in Fund Balance	-	-	4,235	4,235
Fund Balance, July 1, 2011	94,827	94,827	94,827	-
Fund Balance, June 30, 2012	$ 94,827	$ 94,827	$ 99,062	$ 4,235

INTERNAL CONTROL
AND COMPLIANCE SECTION

DAVID M. ELLIS
Certified Public Accountant

Member, American Institute of Certified Public Accountants

Member, Tennessee 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*

To The Library Board
Rogersville, Tennessee

I have audited the accompanying financial statements of the governmental activities and each major fund of The Hawkins County Library System, as of and for the year ended June 30, 2012, which collectively comprise The Hawkins County Library System's basic financial statements and have issued my report thereon dated March 21, 2013. I conducted my 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 Hawkins County Library System is responsible for establishing and maintain effective internal control over financial reporting. In planning and performing my audit, I considered The Hawkins County Library System's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of The Hawkins County Library System's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of The Hawkins County Library System's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weakness in internal control over financial reporting as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Hawkins County Library System's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed certain 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 item 12-01 and 12-02.

The Hawkins County Library System's response to findings identified in my audit is described in the accompanying schedule of findings and recommendations. I did not audit The Hawkins County Library System's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, the Board of The Hawkins County Library System, and the Comptroller of the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

David M. Ellis, CPA
March 21, 2013

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2012

Financial Statement Findings

Prior and Current Year Finding:

12-01 Deposit not made within three days

Condition: On several occasions, it was noted the Library did not deposit fines or miscellaneous fees to the bank within three days of collection.

Criteria: Tennessee Code Annotated 5-8-207 requires:

> "Every county official handling public funds shall be required to maintain an official bank account in a bank or banks within this state, and shall, within three days after the receipt by such county official of any public funds, deposit the funds to the credit of such county official's official bank account, or bank accounts."

Effect: Funds could be misplaced when not deposited timely.

Recommendation: The Library should deposit funds received as soon as practical but no later than three days after receipt.

Management's Comments: The amounts involved are small. However, efforts will be made to insure all funds are deposited within three days of receipt.

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2012

Financial Statement Findings

Prior and Current Year Finding:

12-02 Actual expenditures exceeded budgeted expenditures.

Condition: Actual expenditures in the operating fund were in excess of budgeted expenditures.

Criteria: Tennessee Code Annotated 5-12-110 requires:

> "The appropriations made in the appropriation resolution, or any amendment thereto, shall constitute the limit to expenditures for the various purposes …, and no expenditure shall be made or obligation created in excess of such limitation."

Effect: Library is not in compliance with state code.

Recommendation: The Board should review budgeted and actual expenditures throughout the fiscal year.

Management's Comments: Library Director will implement procedures to review budget.