

**COCKE COUNTY MEMORIAL LIBRARY
COCKE COUNTY, TENNESSEE**

**Financial Statements
June 30, 2013**

COCKE COUNTY MEMORIAL LIBRARY
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June 30, 2013

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DAVID M. ELLIS
Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Library Board
Cocke County Memorial Library,
component unit of Cocke County, Tennessee

I have audited the accompanying financial statements of the governmental activities and the major fund of Cocke County Memorial Library, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Qualified Opinion on General Fund and Statement of Net Position

Management has not adopted a methodology for keeping track of restricted assets in the General Fund. Management has also not adopted a methodology for valuing fixed assets and including them in the Statement of Net Position. Accounting principles generally accepted in the United States of America require that all restricted assets be disclosed separately from non-restricted assets and that all fixed assets be included in total assets on the balance sheet. Including fixed assets in the financial statements would increase total assets and fund balance. The amount by which these departures would affect the assets and fund balance of the General Fund and the Statement of Net Position has not been determined.

Qualified Opinion

In my opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on General Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund of Coker County Memorial Library, as of June 30, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 5-7 and 20 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. 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.

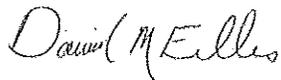
Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Coker County Memorial Library's basic financial statements. The schedule of board members as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of board members has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated November 15, 2013, on my consideration of Coker County Memorial Library's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Coker County Memorial Library's internal control over financial reporting and compliance.



David M. Ellis, CPA
Greeneville, Tennessee
November 18, 2013

COCKE COUNTY MEMORIAL LIBRARY
BOARD MEMBERS
June 30, 2013

Alvin Watts	Chair
Sheilah Strobel	Treasurer
Mary Ann Clark	Secretary
Ralph Fancher	Regional – County
Linda Glass	County
L.C. Gregg	City
Martha Loftis	City
Sarah Preston	County
Robert Williams	Regional – City

Management's Discussion and Analysis

Management's discussion and analysis of Coker County Memorial Library's (Library) financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2013. 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 \$362,500 (net position). Of this amount, \$92,508 represented unrestricted net position.
- The Library's total net position increased by \$5,742.
- The Library's governmental fund reported an ending fund balance of \$362,500 this year, a decrease of \$4,663.

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 Position 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. 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 Position 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 not 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.

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 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 following is the Library's major governmental fund:

- Library Operating Fund – This fund is the general operating fund of the Library. It is used to account for all financial resources.

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 Position

The following summarizes the net position of the Library at June 30, 2013:

	<u>2013</u>	<u>2012</u>
Cash	\$344,670	\$346,215
Receivables	14,063	14,063
Construction in Progress	5,000	-
Total Assets	<u>363,733</u>	<u>360,277</u>
Accounts Payable	44	1,668
Accrued Compensated Absenses	1,189	1,851
Total Liabilities	<u>1,233</u>	<u>3,519</u>
Restricted Net Position	269,992	-
Unrestricted Net Position	<u>92,508</u>	<u>356,758</u>
Total Net Position	<u>\$362,500</u>	<u>\$356,758</u>

Summary of Changes in Net Position

The following is an analysis of the changes in net position for the year ended June 30, 2013. Generally speaking, the Library's net position represents the difference between assets and liabilities. Net position investments in capital assets, net of related debt consists 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 position is reported as restricted when there are limitations imposed on the use either through enabling legislation adopted by the Library or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. A summary of the governmental activities follows:

Revenue	
County/City Gov't Contributions	\$ 111,033
Interest Income	3,207
Donations	12,583
Charges for Services	16,241
Other	5,930
Total Revenue	<u>148,994</u>
Library Operations	<u>143,252</u>
Change in Net Position	5,742
Net Position June 30, 2012	<u>356,758</u>
Net Position June 30, 2013	<u><u>\$ 362,500</u></u>

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 one governmental fund, the Library Operating Fund.

The Library's Operating Fund ended the year with a fund balance of \$362,500 which was a \$4,663 decrease from the prior year. The Library Operating Fund's revenues were \$148,994 while expenditures totaled \$153,657, resulting in a \$4,663 negative change in fund balance.

Economic Factors

The Library is primarily supported by area local governments providing annual contributions to the Library. This past year, approximately 74.5% of the total revenues were from these local governments: Cocke County and the Cities of Newport and Parrottsville, 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 Cocke County Memorial Library, 383 East Broadway, Newport, TN 37843.

COCKE COUNTY MEMORIAL LIBRARY
STATEMENT OF NET POSITION
June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash in Banks	\$ 74,679
Cash in Banks - Restricted	269,992
Accounts Receivable	14,063
Construction in Progress	<u>5,000</u>
Total Assets	363,733
LIABILITIES	
Accounts Payable	44
Accrued Compensated Absences	<u>1,189</u>
Total Liabilities	1,233
NET POSITION	
Restricted - Expendable	234,992
Restricted - Nonexpendable	35,000
Unrestricted	<u>92,508</u>
Total Net Position	<u><u>\$ 362,500</u></u>

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

**COCKE COUNTY MEMORIAL LIBRARY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013**

	Program Revenues		Capital Grants and Contributions	Total Governmental Activities
Expenses	Charges for Services	Operating Grants and Contributions	Contributions	Net (Expense) Revenue and Changes in Net Assets
FUNCTIONS/PROGRAMS				
Governmental Activities:				
Library	\$ 143,252	\$ 16,241	\$ -	\$ (114,428)
GENERAL REVENUES				
Local government appropriations				111,033
Rebates				5,931
Interest income				3,207
				120,170
Total General Revenues				5,742
Change in Net Assets				356,758
Net Position - July 1, 2012				362,500
Net Position - June 30, 2013				362,500

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

**COCKE COUNTY MEMORIAL LIBRARY
BALANCE SHEET
-GOVERNMENTAL FUNDS-
June 30, 2013**

	<u>Operating Fund</u>
ASSETS	
Cash	\$ 110,050
Certificates of Deposit	202,734
Money Market	31,583
Petty Cash	304
Account Receivable	14,063
Construction in Progress	5,000
Total Assets	\$ 363,733
LIABILITIES	
Accounts Payable	\$ 44
Accrued Compensated Absences	1,189
Total Liabilities	1,233
FUND BALANCES	
Nonspendable	35,000
Restricted for:	
Capital Projects/Specific Books	234,992
Unassigned	92,508
Total Fund Balance	362,500
Total Liabilities and Fund Balance	\$ 363,733

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

**COCKE COUNTY MEMORIAL LIBRARY
STATEMENT OF REVENUE, EXPENDITURES
& CHANGES IN FUND BALANCES
-GOVERNMENTAL FUNDS-
For the Year Ended June 30, 2013**

	<u>Operating Fund</u>
REVENUE	
City of Newport	\$ 42,188
City of Parrottsville	550
Cocke County	68,295
Charges for Services	16,241
Interest Income	3,207
Donations/Other	12,583
Rebates	5,931
Total Revenue	148,994
EXPENDITURES	
Salaries/Benefits/Taxes	101,248
Plant & Operations/Insurance	9,333
Telecommunications	9,628
Supplies/Postage/Programs	3,982
Materials	16,242
Travel/Dues/Training	528
Rent	1,200
Miscellaneous	1,091
Capital Outlay	10,405
Total Expenditures	153,657
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (4,663)
Fund Balance, July 1, 2012	367,163
Fund Balance, June 30, 2013	\$ 362,500
Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances -- total governmental funds	\$ (4,663)
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets should be allocated over the estimated useful lives as depreciation expense. In the current year, fixed assets were not considered. These will all be booked next year.	10,405
Change in net assets of governmental activities	\$ 5,742

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

COCKE COUNTY MEMORIAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Library have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Description of Library's Operations

The Cocke County Memorial Library (the "Library") was established to maintain and operate public libraries in Cocke County, Tennessee. The Library operates under the supervision and control of a Library 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 Cocke County Memorial Library.

B. Basis of Presentation

The Library's basic financial statements consist of government-wide statements, including a statement of net position 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 position and the statement of activities display information about the Library as a whole. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of net position 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, 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

COCKE COUNTY MEMORIAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

statements are designed to present financial information of the Library at a 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, 2013, the Library had only one governmental fund.

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 fund assets and liabilities is reported as fund balance. The following is the Library's major governmental fund:

- Library Operating Fund – This fund is the general operating fund of the Library. It is used to account for all financial resources.

D. Measurement Focus

Government-Wide Statements

The government-wide financial statements are prepared using the *economic resources measurement focus*.

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

Fund Financial Statements

All governmental funds are accounted for using the *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.

COCKE COUNTY MEMORIAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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.

COCKE COUNTY MEMORIAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

F. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

For the fiscal year-end June 30, 2013, the Library has neither a deferred inflow nor a deferred outflow of resources.

G. 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.

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.

H. Cash and Cash Equivalents

For presentation on the financial statements, the Library's cash and cash equivalents consist of checking, certificates of deposit, money market, and petty cash accounts. The Library has no other types of investments. See Note 2 regarding cash in bank disclosures.

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.

COCKE COUNTY MEMORIAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

Capital Assets were not yet defined by the Library as of June 30, 2013, and have not been placed on the books. See the subsequent events section at the end of the footnotes for additional information.

J. Compensated Absences

It is the policy of the Library to accrue vacation time up to 4 weeks, which must be used within two years of being earned. Sick leave may accumulate to 14 days per year, but will not carry over to the next fiscal year. Compensated absences for vacation have been accrued at June 30, 2013.

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, 2013, the Library had no long-term debt other than compensated absences for vacation due within one year.

L. Net Position

Net position represents the difference between assets and liabilities. Net position investments in capital assets consist of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on the use either through the enabling legislation adopted by the Library Board 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 Restrictions

The Library restricts 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 an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications

COCKE COUNTY MEMORIAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 a Salary Allotment Plan through Modern Woodmen of America as well as a small amount of disability insurance. Employees contributed \$4,046 to the Salary Allotment Plan in the current year.

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, 2013, 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, 2013, the carrying amount of the Library's deposits was \$344,367 and the respective bank balances totaled \$361,235. The difference between the two amounts represents deposits in transit, outstanding checks, or other reconcilable items. As of June 30, 2013, the total bank balance of \$126,918 with the National Bank of Tennessee and the total bank balance of \$234,317 with the Newport Federal Bank were covered by FDIC insurance.

At June 30, 2013, the following accounts were restricted:

Certificate of Deposit -3055	\$ 10,000
Certificate of Deposit -0835	25,000
Building Fund-Cosby	32,299
Building Fund-Stokely	167,734
Building Fund-Money Mkt	31,583
Genealogy Research	3,377
	\$269,992

COCKE COUNTY MEMORIAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 – 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 4 – 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.

NOTE 5 – CONTRIBUTED FACILITIES

The Library occupies, without charge, two 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 6 – LEASES

The Library has entered into a lease agreement with the Cosby Volunteer Fire Department. The Cosby Volunteer Fire Department leases a room on the upper level of the fire station building designated as "Cosby Community Library" for \$100 per month. This agreement is renewed annually by both parties.

NOTE 7 – GRANT ACTIVITY

In the current year, the Library was awarded no federal or state grants.

NOTE 8 – JOINT VENTURE

The Library is funded by contributions from Cocke County and the municipalities of Newport and Parrottsville. The Library Board is managed by nine members. Of the nine local board members, four are appointed by the Cocke County Commission and four by the municipality of Newport while one member at large is jointly appointed.

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

City of Newport	\$ 42,188
City of Parrottsville	550
Cocke County	<u>68,295</u>
	\$ 111,033

COCKE COUNTY MEMORIAL LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 – SUBSEQUENT EVENTS

The Library is in the process of building a new Cosby Community Library to replace the current building. Construction in Progress for the year ending June 30, 2013 was \$5,000.

Due to lack of record-keeping, at June 30, 2013, the Library had no capital assets recorded on the books. The Library is currently working to resolve this issue and arrive at a reasonable estimate of all capital assets for the next fiscal year-end.

In preparing these financial statements, management has evaluated subsequent events through November 18, 2013, the date the financial statements were available to be issued.

**COCKE COUNTY MEMORIAL LIBRARY
SCHEDULE OF REVENUE, EXPENDITURES
& CHANGES IN FUND BALANCES - BUDGET & ACTUAL
OPERATING FUND
For the Year Ended
June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance w/ Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUE				
City of Newport	\$ 56,250	\$ 56,250	\$ 42,188	\$ (14,063)
City of Parrottsville	500	500	550	50
Cocke County	68,295	68,295	68,295	-
Charges for Services	12,925	12,925	16,241	3,316
Interest Income	1,500	1,500	3,207	1,707
Donations/Other	17,500	17,500	12,583	(4,917)
Rebates	2,500	2,500	5,931	3,431
Total Revenue	\$159,470	\$159,470	\$148,994	\$ (10,476)
EXPENDITURES				
Salaries/Benefits/Taxes	\$101,000	\$101,000	\$101,248	\$ (248)
Plant & Operations/Insurance	22,500	22,500	9,333	13,167
Telecommunications	5,000	5,000	9,628	(4,628)
Supplies/Postage/Programs	6,300	6,300	3,982	2,318
Materials	13,500	13,500	16,242	(2,742)
Travel/Dues/Training	500	500	528	(28)
Rent	1,200	1,200	1,200	-
Capital Improvements	7,500	7,500	-	7,500
Capital Outlay	-	-	10,405	(10,405)
Miscellaneous	1,970	1,970	1,091	879
Total Expenditures	159,470	159,470	153,657	5,813
Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (4,663)	\$ (4,663)
Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	-	-	(4,663)	(4,663)
Fund Balance, July 1, 2012	367,163	367,163	367,163	
Fund Balance, June 30, 2013	<u>\$367,163</u>	<u>\$367,163</u>	<u>\$362,500</u>	<u>\$ (4,663)</u>

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**INDEPENDENT AUDITOR'S 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
Cocke County, Tennessee

I have audited, in accordance with the 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, the financial statements of the governmental activities and the major fund of Cocke County Memorial Library, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Cocke County Memorial Library's basic financial statements and have issued my report thereon dated November 18, 2013.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered Cocke County Memorial Library's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cocke County Memorial Library's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and recommendations to be material weaknesses. 13-08.

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. I consider the deficiencies described in the accompanying schedule of findings

and recommendations to be significant deficiencies. 13-01, 13-02, 13-03, 13-04, 13-05, 13-06, and 13-07.

Compliance and Other Matters

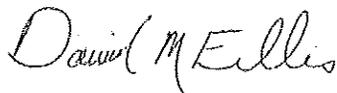
As part of obtaining reasonable assurance about whether Coker County Memorial Library's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 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 recommendations as item 13-09.

Coker County Memorial Library's Reponse to Findings

The Coker County Memorial Library's response to findings identified in my audit is described in the accompanying schedule of findings and recommendations. Coker County Memorial Library's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



David M. Ellis, CPA
Greeneville, Tennessee
November 18, 2013

COCKE COUNTY MEMORIAL LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2013

Financial Statement Findings

13-01 Lack of Purchasing Policy

Condition: The library has no adopted purchasing policy.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 18, Section 1, states:

The governing body, by ordinance, should establish a purchasing policy. The policy should comply with the requirements of the Municipal Purchasing Law of 1983, Sections 6-56-301 through 6-56-306, *Tennessee Code Annotated*, or applicable charter provisions of private act requirements governing competitive bidding and purchasing...

Effect: Verbal policies and procedures are more likely to result in intentional or unintentional errors that could be made and not be detected.

Recommendation: The Library's Policy Handbook should specifically address the policy to make purchases, including the authorization of such purchases.

Management's Comments: Management concurs.

13-02 Inadequate Cancellation of Invoices and Supporting Documentation

Condition: Paid invoices are not being canceled properly.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 19, Section 3, states:

Municipal officials should ensure that personnel cancel each page of supporting documentation, including purchase authorizations/orders before the checks and documentation are submitted for approval and signing. Supporting documents should be canceled by writing the check number, amount, payment date, and account to be charged on the first page of documentation and stamping "PAID" on all other pages.

Effect: Uncertainty arises in regards to whether or not an invoice has been approved and paid.

Recommendation: Supporting documents should contain necessary items – approval signature, check number, amount, payment date, account to be charged, and "PAID" stamp.

Management's Comments: Management concurs.

COCKE COUNTY MEMORIAL LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2013

13-03 Lack of Approval for Purchasing

Condition: The library has no documented process of approval for paying invoices.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 19, Section 5, states:

Municipal officials should ensure a designated employee or official reviews all checks prior to being signed to establish the propriety of each disbursement and to be certain the purchase has not previously been paid. The designated employee or official should document on the invoice the review and approval.

Effect: This could result in disbursements being paid more than once and disbursements which are unrelated to Library purposes.

Recommendation: A library official should review all checks and sign or initial the related invoice for approval.

Management's Comments: Management concurs.

13-04 Lack of Official Signature on Meeting Minutes

Condition: Minutes of meetings are not signed.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 4, Chapter 2, Section 4, states:

Municipal officials should ensure that complete minutes of actions taken by the governing body are maintained at the municipal office. The official minutes should be signed and kept together in date order and be easily accessible...

Effect: Without an official signature on each meeting's minutes, actions taken and discussed in those meetings have no evidence of approval by the Board.

Recommendation: The Library Board Chair should sign each meeting's minutes, noting his/her approval on all matters discussed.

Management's Comments: Management concurs.

13-05 Lack of Records Retention Policy

Condition: The library has no records retention policy.

COCKE COUNTY MEMORIAL LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2013

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 4, Chapter 9, Section 2, states:

Section 10-7-702, *Tennessee Code Annotated*, provides that Municipal Technical Advisory Service (MTAS), "...is authorized to compile and print, in cooperation with the state library and archives, records retention manuals which shall be used as guides by municipal officials in establishing retention schedules for all records created by municipal governments in the state"...This guide can be accessed at <http://www.mtas.utk.edu>.

Effect: Some documents may not be held for the required amounts of time, and others may be stored unnecessarily that could have been destroyed and discarded.

Recommendation: Management should adopt the MTAS records retention policy.

Management's Comments: Management concurs.

13-06 Cash Handled Improperly

Condition: 1) Money collected is not deposited within 3 days; 2) Money is occasionally withheld from the deposit; 3) All cash is not kept in a secure location; 4) Voided checks are not defaced; 5) Copies of the back of canceled checks are not provided by the bank.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 11, Sections 1, 2, 3, 8, and 9 state:

Municipal officials should ensure that collections are deposited...no more than three business days after the initial collection, as required by state law...; collections are deposited intact...[meaning] collections are deposited in the form and amount in which they are collected. All money collected must be deposited in the next deposit. No collections should be withheld from the deposit for any reason; all cash maintained on hand and collections not yet deposited are kept in a secure location; voided checks are defaced and retained;...If no imaged statements are issued, the municipality should require the bank to include both the front and the back of each check and deposit slip, and require that the images be of such quality and size that they are clearly legible.

Effect: Not keeping all cash in a secure location and not properly depositing all cash received allows for multiple errors in cash deposits and in cash balances.

Recommendation: Management should 1) make deposits at least once every three business days, 2) not withhold collected monies from deposits for the cash drawer, 3) keep cash in a secure location at all times, 4) deface voided checks, and 5) request that the bank include copies of the front and back of each canceled check and deposit slip.

Management's Comments: Management concurs.

COCKE COUNTY MEMORIAL LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2013

13-07 Collections Handled Improperly

Condition: 1) Customers are not issued receipts; 2) The daily cash log does not allow for all necessary information to be recorded; 3) Receipts and collections are not turned over to the bookkeeper daily.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 14, Sections 2, 6, and 10, state:

Municipal officials should ensure that prenumbered [duplicate] receipts for each revenue source are issued...; daily collection report [should] clearly indicate the amount to be deposited, the amount retained for change, and the amount of cash over or short...; at the end of each day, all...evidence of collection are turned over to the bookkeeper for posting.

Effect: When customers are not issued duplicate receipts which can be traced to the deposit amount, the possibility arises that intentional or unintentional errors could be made and not be detected.

Recommendation: Management should 1) issue duplicate receipts to all customers, 2) reformat the daily cash log to include amount collected, amount to be deposited, amount retained for change, and amount of overage/shortage, 3) give bookkeeper all evidence of collections (receipt copies, deposit tickets, etc.) daily.

Management's Comments: Management concurs.

13-08 Lack of Segregation of Duties

Condition: Having one librarian at each of the libraries hinders control for transactions.

Criteria: The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 1, Section 1, states:

Municipal officials should separate duties of employees so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee's work is automatically verified by another employee working independently...When adequate segregation of duties is not possible, management/board oversight should be increased to provide reasonable assurance that errors, irregularities or fraud are prevented or detected and corrected in a timely manner...

Effect: The result of one employee handling an entire accounting transaction is the danger that intentional or unintentional errors could be made and not be detected.

Recommendation: To the extent possible, segregate the duty of preparing the bank deposit from the duty of counting cash and collecting receipts.

COCKE COUNTY MEMORIAL LIBRARY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2013

Management's Comments: This will be an ongoing problem since each Library only has one librarian. Management will continue to monitor and discuss ways that the Board members could be involved in this process.

13-09 Lack of Approval of Annual Budget

Condition: The annual budget is not mentioned in the complete minutes of actions taken; therefore, it cannot be proven that the annual budget was approved by the Library Board.

Criteria: The *Tennessee Standards for Non-Metropolitan Public Libraries-Revised 2013*, Section "Standards for Budget", pg. 17 states:

...The Library Board and director prepare a written and itemized annual budget...

Add'l Criteria: The *Tennessee Code Annotated* §6-56-203 states:

The governing body of each municipality shall adopt and operate under an annual budget ordinance. The budget ordinance shall present a financial plan for the ensuing fiscal year...

Effect: Without the mention of the annual budget in the meeting minutes, there is no evidence that an annual budget was adopted and approved.

Recommendation: All actions taken and discussed should be documented in the signed meeting minutes.

Management's Comments: Management concurs.