

**THE HAWKINS COUNTY LIBRARY SYSTEM
ROGERSVILLE, TENNESSEE**

Financial Statements

June 30, 2013

THE HAWKINS COUNTY LIBRARY SYSTEM
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June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Library Board
Hawkins County Library System
Rogersville, Tennessee

Report on the Financial Statements

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, 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 disclosure 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.

Opinions

In my opinion, the financial statements are fairly stated 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, 2013, and the respective changes in financial position, 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 4-7 and 21-22 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 Hawkins County Library System'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 21, 2013, on my consideration of Hawkins County Library System'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 Hawkins County Library System's internal control over financial reporting and compliance.



David M. Ellis, CPA
Greeneville, TN
November 21, 2013

THE HAWKINS COUNTY LIBRARY SYSTEM
BOARD MEMBERS AND MANAGEMENT
June 30, 2013

Stella Logan
Earline Price
Richard Burdette
Kathy Campbell
Tom Shelburne
Gerri Pierce
Eugene Harris
Barbara Combs
Chris Christian
Eileen Queener
Maureen McDaniel
Melissa Montgomery

Chairman
Secretary/Treasurer
Board
Board
Board
Board
Board
Board
Board
Director
Manager-Church Hill
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, 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 \$343,949 (net position). Of this amount, \$128,695 represented unrestricted net position.
- The Library's total net position decreased by \$1,733.
- The Library's governmental funds reported combined ending fund balances of \$197,067 this year, a decrease of \$18,151.

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. 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 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.

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 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 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 Position

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

	<u>2013</u>	<u>2012</u>
Cash	\$ 197,067	\$ 215,218
Receivables	0	0
Capital Assets, Net	<u>156,604</u>	<u>135,334</u>
Total Assets	353,671	350,552
Accounts Payable/Accrued Expenses	5,674	5,250
Accrued Compensated Absences	4,048	3,086
Current Liabilities	<u>0</u>	<u>0</u>

Total Liabilities	\$ 9,722	\$ 8,336
Net position		
Capital Assets	156,604	135,334
Restricted	58,650	99,062
Unrestricted	128,695	107,820
Total Net Position	\$ 343,949	\$ 342,216

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 represent the difference between assets and liabilities. Net position 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 position is 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:

	<u>2013</u>	<u>2012</u>
Revenue		
County & City Government	\$ 274,555	\$ 269,555
Contributions		
Interest Income	326	3,674
Donations	42,705	12,020
Charges for Services	24,571	24,361
Grants	<u>0</u>	<u>0</u>
Total Revenue	342,157	309,610
Library Operations	<u>340,424</u>	<u>323,057</u>
Net Change in Position	1,733	(13,447)
Net Position, Beginning	<u>342,216</u>	<u>355,663</u>
Net Position, Ending	<u>\$ 343,949</u>	<u>\$ 342,216</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 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 \$128,695 which was a \$20,875 increase from the prior balance. The Library Operating Fund's revenues were \$382,569 while expenditures totaled \$361,694, resulting in a \$20,875 positive change in fund balance.

The Contingency/Grant Fund ended the year with a fund balance of \$58,650.

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, 2013.

Economic Factors

The Library is primarily supported by area local governments providing annual contributions to the Library. This past year, approximately 72% 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 POSITION
June 30, 2013

ASSETS	<u>Governmental Activities</u>
Current Assets:	
Cash in banks	\$ 133,133
Cash in banks - restricted	63,934
Total Current Assets	<u>197,067</u>
Noncurrent assets:	
Capital assets:	
Books and collections	903,459
Furniture and equipment	186,708
Less: Provision for depreciation	<u>(933,563)</u>
Total Noncurrent Assets	<u>156,604</u>
Total Assets	353,671
LIABILITIES	
Accounts payable/Accrued expenses	5,674
Accrued compensated absences due within one year	<u>4,048</u>
Total Liabilities	9,722
NET POSITION	
Investment in capital assets	156,604
Restricted for capital projects	63,934
Unrestricted	<u>123,411</u>
Total Net Position	<u>\$ 343,949</u>

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, 2013

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	\$ 340,424	\$ 24,571	\$ 42,705	\$ -	\$ (273,148)
GENERAL REVENUES					
Local government appropriations					274,555
Interest income					326
Total General Revenues					274,881
Change in Net Assets					1,733
Net Position - July 1, 2012					342,216
Net Position - June 30, 2013					\$ 343,949

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

**THE HAWKINS COUNTY LIBRARY SYSTEM
BALANCE SHEET-GOVERNMENTAL FUNDS**

June 30, 2013

	Operating Fund	Contingency/ Grant Fund	Total Governmental Funds
ASSETS			
Cash	\$ 123,015	\$ -	\$ 123,015
Certificate of Deposit	.	63,934	63,934
Petty Cash Checking	10,118	-	10,118
Total Assets	\$ 133,133	\$ 63,934	\$ 197,067
LIABILITIES			
Accounts Payable/Accrued Expenses	\$ 5,674	\$ -	\$ 5,674
Accrued Compensated Absences - Current	4,048	-	4,048
Total Liabilities	9,722	-	9,722
FUND BALANCES			
Nonspendable	.	-	-
Restricted for:			
Contingency/Capital Projects	.	63,934	63,934
Committed			
Assigned	.	-	-
Unassigned	123,411	-	123,411
Total Fund Balance	123,411	63,934	187,345
Total Liabilities and Fund Balance	\$ 133,133	\$ 63,934	\$ 197,067

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

Fund Balances - Total Governmental Funds	\$ 187,345
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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	1,090,167	
Capital asset accumulated depreciation	(933,563)	156,604

Net position of governmental activities	\$ 343,949
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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, 2013**

	Operating Fund	Contingency/ Grant Fund	Total Governmental Funds
REVENUE			
Town of Rogersville	\$ 112,000	\$ -	\$ 112,000
Hawkins County	94,000	-	94,000
Town of Church Hill	50,055	-	50,055
Town of Surgoinsville	18,500	-	18,500
Charges for Services	24,571	-	24,571
Interest Income	250	76	326
Donations/Other	29,820	-	29,820
Grants	12,885	-	12,885
Total Revenue	342,081	76	342,157
EXPENDITURES			
Salaries/Benefits/Taxes	225,293	-	225,293
Plant & Operations/Insurance	36,287	-	36,287
Supplies/Postage/Programs	14,907	-	14,907
Books/Audiovisuals/Periodicals	33,761	-	33,761
Travel/Dues/Training	765	-	765
Professional Fees/Bonding	7,585	-	7,585
Miscellaneous	7,356	-	7,356
Automation/Supplies/Capital Outlay	35,740	-	35,740
Total Expenditures	361,694	-	361,694
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (19,613)	\$ 76	\$ (19,537)
Other Financing Sources (Uses)	35,204	(35,204)	-
Net Change in Fund Balance	15,591	(35,128)	(19,537)
Fund Balance, July 1, 2012	107,820	99,062	206,882
Fund Balance, June 30, 2013	<u>\$ 123,411</u>	<u>\$ 63,934</u>	<u>\$ 187,345</u>

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

Net change in fund balances -- total governmental funds \$ (19,537)

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 \$28,153.

21,270

Change in net position of governmental activities

\$ 1,733

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

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 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. 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 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 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.

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, 2013, 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 position.

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

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 position. At June 30, 2013, 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

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, 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 sick pay due within one year.

L. Net Position

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

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 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, 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 \$197,067 and the respective bank balances totaled \$200,195. The difference between the two represented deposits in transit, outstanding checks, or other reconcilable items. As of June 30, 2013, the total bank balance of \$200,195 was covered by FDIC insurance.

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

Building Fund	5,284
Certificates of Deposit (for capital projects)	<u>58,650</u>
Total	<u>\$ 63,934</u>

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning			Ending
	Balance			Increases
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 171,048	\$ 15,660	\$ -	\$ 186,708
Collections-Library Books	917,247	33,761	47,550	903,458
Subtotal	<u>1,088,295</u>	<u>49,421</u>	<u>47,550</u>	<u>1,090,166</u>
Less: Accumulated Depreciation For:				
Furniture and Equipment	164,277	2,920	0	167,197
Collections-Library Books	<u>788,683</u>	<u>25,232</u>	<u>47,550</u>	<u>766,365</u>
	952,960	28,152	47,550	933,562
Capital Assets - Net of Depreciation	<u>\$ 135,335</u>	<u>\$ 21,269</u>	<u>\$ -</u>	<u>\$ 156,604</u>

Depreciation was charged to the Library program in the amount of \$28,153. 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.

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 two federal grants through the Tennessee Department of Library and Archives in the amount of \$18,983. 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	112,000
Church Hill	50,055
Surgoinsville	<u>18,500</u>
	<u>\$ 274,555</u>

NOTE 9 – OPERATING FUND – BUDGETED EXPENDITURES VERSUS ACTUAL EXPENDITURES

For the year ending June 30, 2013, the Library adopted a budget for the operating fund, but no budget was adopted for the contingency/grant fund. In addition, no amendments were made to the operating fund original budget document. As a result, actual expenditures exceeded original budgeted expenditures as follows:

	Budgeted Expenditures	Actual Expenditures	Over Budget
Operating Fund	\$278,546	\$361,694	(83,148)

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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
Salaries/Benefits	217,374	225,293	(7,919)
Plant & Operations	20,310	36,287	(15,977)
Supplies/Postage	0	14,907	(14,907)
Books/Audio-Visuals	24,500	33,761	(9,261)
Professional Fees	7,500	7,585	(85)
Automation/Supplies	7,662	43,096	(35,434)

NOTE 10 – SUBSEQUENT EVENTS

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

**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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Town of Rogersville	\$ 112,000	\$ 112,000	\$ 112,000	\$ -
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	-	-	24,571	24,571
Interest Income	-	-	250	250
Donations/Other	-	-	29,820	29,820
Grants	-	-	12,885	12,885
	<u>274,555</u>	<u>274,555</u>	<u>342,081</u>	<u>67,526</u>
Total Revenue	\$ 274,555	\$ 274,555	\$ 342,081	\$ 67,526
EXPENDITURES				
Salaries/Benefits/Taxes	\$ 217,374	\$ 217,374	\$ 225,293	\$ 7,919
Plant & Operations/Insurance	20,310	20,310	36,287	15,977
Supplies/Postage/Programs	-	-	14,907	14,907
Books/Audiovisuals/Periodicals	24,500	24,500	33,761	9,261
Travel/Dues/Training	1,200	1,200	765	(435)
Professional Fees/Bonds	7,500	7,500	7,585	85
Automation/Supplies/Other	7,662	7,662	43,096	35,434
	<u>278,546</u>	<u>278,546</u>	<u>361,694</u>	<u>83,148</u>
Total Expenditures	278,546	278,546	361,694	83,148
Revenues Over (Under) Expenditures	\$ (3,991)	\$ (3,991)	\$ (19,613)	\$ (15,622)
Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,204</u>	<u>\$ 35,204</u>
Net Change in Fund Balance	(3,991)	(3,991)	15,591	19,582
Fund Balance, July 1, 2012	<u>107,820</u>	<u>107,820</u>	<u>107,820</u>	<u>-</u>
Fund Balance, June 30, 2013	<u>\$ 103,829</u>	<u>\$ 103,829</u>	<u>\$ 123,411</u>	<u>\$ 19,582</u>

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

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Interest Income	-	-	76	(76)
Donations	-	-	-	-
Grants	-	-	-	-
Total Revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76</u>	<u>\$ 76</u>
EXPENDITURES				
Transfer to Other Funds	-	-	-	-
Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76</u>	<u>\$ 76</u>
Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (35,204)</u>	<u>\$ (35,204)</u>
Net Change in Fund Balance	-	-	(35,128)	(35,128)
Fund Balance, July 1, 2012	<u>99,062</u>	<u>99,062</u>	<u>99,062</u>	<u>-</u>
Fund Balance, June 30, 2013	<u><u>\$ 99,062</u></u>	<u><u>\$ 99,062</u></u>	<u><u>\$ 63,934</u></u>	<u><u>\$ (35,128)</u></u>

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

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, 2013, which collectively comprise The Hawkins County Library System's basic financial statements and have issued my report thereon dated November 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 maintaining 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.

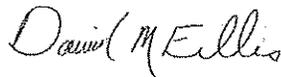
Compliance and Other Matters

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, 12-02, 13-01, and 13-02.

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
November 21, 2013

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2013

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.

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.

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2013

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

Current Year Finding:

13-01 Invoices are not properly cancelled

Condition: Invoices are paid without the account to be charged indicated on them.

Criteria: The Internal Control and Compliance Manual for Tennessee Municipalities Title 5 Chapter 19 Section 3 recommends that personnel cancel each page of the supporting documentation by writing the check number, amount, payment date and account to be charged on the first page and stamping "PAID" on all other pages.

Cause: Library policy does not dictate that this procedure be followed.

Effect: Invoices could be paid more than once or charged to the wrong account.

Recommendation: The Library should cancel invoices based on the requirements in the Internal Control and Compliance Manual for Tennessee Municipalities.

Management's Comments: Management agrees with the finding.

Current Year Finding:

13-02 Two Authorized Signatures Are Not Always Used

Condition: Several instances were noted where only one signature was used on checks.

Criteria: The Internal Control and Compliance Manual for Tennessee Municipalities Title 5, Chapter 11, section 7 requires the Library to have two authorized signatures on all checks.

Cause: Due to the size of the Library in smaller towns, checks sometimes have to be sent without the two authorized signatures.

Effect: Without adequate procedures being followed, it becomes more likely that fraud could occur and not be detected in a timely manner.

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2013

Recommendation: The Library should follow the guidance in the Internal Control and Compliance Manual for Tennessee Municipalities and establish a system to ensure checks are sent out only after receiving two signatures.

Management's comments: Management agrees with the finding.