

**LINEBAUGH PUBLIC LIBRARY SYSTEM
MURFREESBORO, TENNESSEE
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

LINEBAUGH PUBLIC LIBRARY SYSTEM

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Independent Auditors' Report

To the Board of Directors of the Linebaugh Public Library System
Murfreesboro, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit and each major fund of the Linebaugh Public Library System (the "System"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System'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 statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 risks 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statement referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and each major fund of the Linebaugh Public 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 on pages 5-7 and the schedule of funding progress for the pension plan presented on page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013, on our consideration of the Linebaugh Public Library System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Linebaugh Public Library System's internal control over financial reporting and compliance.

Dempsey Vanstone + Folli ACC

December 6, 2013
Murfreesboro, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Linebaugh Library System's (Library) financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2013. This should be read in conjunction with the Library's financial statements which begin on page 8.

FINANCIAL HIGHLIGHTS

The Library's program and other revenues were about the same as the prior year.

- The Library net assets increased by \$88,977 for the year compared to \$125,377 last year
- The expenses for the year were \$2.43 million compared to \$2.29 million in the prior year.

USING THIS REPORT

This report consists of the following financial statements: the statement of net position, statement of activities and the fund financial statements. The statement of net position and statement of activities provide information about the Library's finances as a whole, whereas the fund financial statements provide more detail information about the Library's operations.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements include the statement of net assets and the statement of activities and report the operations of the Library as a whole using accounting methods similar to those used by private companies. These two statements report the Library's net position and how it changed. Net position, which is the difference between assets and liabilities, are one way to measure the Library's financial health. Over time, increases or decreases in the Library's net position is one indicator of whether its financial health is improving or deteriorating. Other factors should also be considered such as the overall financial health of Rutherford County, the City of Smyrna, the City of Eagleville and the City of Murfreesboro since these entities primarily support the Library. Also included in the government-wide statements is a component unit, the Linebaugh Library Foundation ("the foundation"), which is a separate, tax exempt entity that supports the Library.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Library's four funds - the Smyrna Public Library fund, the Myrtle Glanton Lord (MGL) Library fund, the Eagleville Bicentennial Library fund and the Linebaugh Public Library (Murfreesboro) fund. These four funds track the specific revenues and expenses for each fund and the balances that are left in the funds for future spending. These funds only focus on cash and other assets that can be easily converted to cash. The fund statements include a reconciliation of the difference between the fund statements and the government-wide statements.

FINANCIAL ANALYSIS

A condensed statement of the Library's net position excluding the foundation is shown in Table 1 below.

Table 1
Net Position

	2013	2012
Cash and investments	\$ 1,229,149	\$ 1,093,557
Capital assets	971,052	1,005,045
Other	5,848	4,635
	<u>2,206,049</u>	<u>2,103,237</u>
Other liabilities	(105,540)	(91,702)
Net position:		
Invested in capital assets	971,052	1,005,045
Unrestricted	1,128,714	998,647
Restricted for grants	743	7,843
	<u>\$ 2,100,509</u>	<u>\$ 2,011,535</u>

Net position for the year increased by \$88,977. The unrestricted net assets give a good indication of the assets available for future operations.

A condensed statement of the Library's statement of activities is shown in Table 2 below.

Table 2
Changes in Net Position

	2013	2012
Program revenues	\$ 130,440	\$ 139,615
Local government support	2,226,214	2,137,288
Other revenues	169,637	146,366
	<u>2,526,291</u>	<u>2,423,269</u>
Expenses:		
Payroll and benefits	1,505,822	1,430,108
Books and periodicals	8,450	9,040
Occupancy	262,609	252,087
Depreciation	471,363	426,192
Other costs	189,070	180,465
	<u>2,437,314</u>	<u>2,297,892</u>
Increase in net position	<u>\$ 88,977</u>	<u>\$ 125,377</u>

The increase in other revenues is primarily related to the Library receiving capital donations from the foundation. Government funding increased from the previous fiscal year. Expenses overall are very comparable to the prior year.

CAPITAL ASSETS

At the end of the fiscal year the Library had \$971,052 invested in capital assets. It should be noted that the Library does not own its facilities in Smyrna, Murfreesboro, or Eagleville. They are owned jointly by Rutherford County and/or the respective cities. Capital asset additions in the current year were approximately \$437,000 which primarily represents books purchased or donated to the library.

NEXT YEAR'S ACTIVITIES

Management expects next year operations to be consistent with the 2013 fiscal year with an approximate 5% increase in funding for FY2014.

LINEBAUGH PUBLIC LIBRARY SYSTEM

STATEMENT OF NET POSITION

June 30, 2013

	Primary Governmental Fund	Component Unit- Linebaugh Library Foundation
ASSETS		
Cash and cash equivalents	\$ 915,663	\$ -
Investments	313,487	142,189
Prepaid expenses	5,848	-
Capital assets, net of accumulated depreciation	971,052	-
TOTAL ASSETS	\$ 2,206,050	\$ 142,189
LIABILITIES		
Accounts payable	\$ 14,853	\$ -
Withheld payroll liabilities	1,455	-
Accrued vacation	89,232	-
TOTAL LIABILITIES	105,540	-
NET POSITION		
Net investment in capital assets	971,052	-
Unrestricted	1,129,458	96,122
Restricted for grant or other purposes	-	46,067
	<u>2,100,510</u>	<u>142,189</u>
TOTAL LIABILITIES AND NET POSITION	\$ 2,206,050	\$ 142,189

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

	Primary Governmental Fund	Component Unit- Linebaugh Library Foundation
Expenses:		
Payroll and benefits	\$ 1,505,822	\$ -
Periodicals	8,450	-
Occupancy costs	262,609	-
Depreciation	471,363	-
Other operating costs	189,070	4,799
Total program expenses	2,437,314	4,799
Program Revenues	130,440	-
Net program expense	2,306,874	4,799
General Revenues:		
Local government support	2,226,214	-
Interest	4,119	14
Donated Books	101,317	-
Grant income	12,200	-
Miscellaneous public support	16,149	1,251
Total general revenues	2,359,999	1,265
Capital acquisition transfer	35,852	(35,852)
Change in net position	88,977	(39,386)
Net position at beginning of year	2,011,533	181,575
Net position at end of year	<u>\$ 2,100,510</u>	<u>\$ 142,189</u>

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM
GOVERNMENTAL FUND BALANCE SHEET

June 30, 2013

ASSETS

	<u>Murfreesboro</u>	<u>Smyrna</u>	<u>Myrtle Lord</u>	<u>Eagleville</u>	<u>Total</u>
Pooled cash and cash equivalents	\$ 615,696	\$ 244,295	\$ 35,607	\$ 20,065	\$ 915,663
Pooled investments	166,298	147,189	-	-	313,487
Prepaid items	3,911	1,698	65	174	5,848
Total assets	<u>\$ 785,905</u>	<u>\$ 393,182</u>	<u>\$ 35,672</u>	<u>\$ 20,239</u>	<u>\$ 1,234,998</u>

LIABILITIES AND FUND BALANCES

Accounts payable	\$ 14,853	\$ -	\$ -	\$ -	\$ 14,853
Withheld payroll liabilities	1,455	-	-	-	1,455
	16,308	-	-	-	16,308
Fund balance					
Non spendable-prepays	3,911	1,698	65	174	5,848
Unassigned	765,686	391,484	35,607	20,065	1,212,842
	<u>769,597</u>	<u>393,182</u>	<u>35,672</u>	<u>20,239</u>	<u>1,218,690</u>
Total liabilities and fund balance	<u>\$ 785,905</u>	<u>\$ 393,182</u>	<u>\$ 35,672</u>	<u>\$ 20,239</u>	<u>\$ 1,234,998</u>

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

Fund balance	1,218,690
Capital assets used in governmental activities are not reported in the funds	971,052
Accrued vacation pay is not due in the current period and therefore is not reported in the funds	<u>(89,232)</u>
	<u>\$ 2,100,510</u>

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM

STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended June 30, 2013

	<u>Murfreesboro</u>	<u>Smyrna</u>	<u>Myrtle Lord</u>	<u>Eagleville</u>	<u>Total</u>
Revenue					
City funds	\$ 721,527	\$ 217,945	\$ 84,784	\$ 18,458	\$ 1,042,714
County funds	892,359	266,288	-	24,853	1,183,500
Gifts and memorials	11,665	4,339	45	100	16,149
Gifts from Library Foundation	35,852	-	-	-	35,852
Grant income	2,200	10,000	-	-	12,200
Interest income	2,598	1,252	149	120	4,119
Fines and miscellaneous	84,654	42,153	1,836	1,797	130,440
Total revenue	<u>1,750,855</u>	<u>541,977</u>	<u>86,814</u>	<u>45,328</u>	<u>2,424,974</u>
Expenditures					
Books purchased	172,303	56,282	11,220	4,619	244,424
Salaries	860,834	257,921	45,207	18,063	1,182,025
Payroll taxes	62,982	19,792	3,148	1,826	87,748
Retirement	60,667	14,886	1,060	-	76,613
Employee insurance	109,084	27,739	6,139	6,626	149,588
Utilities	85,077	39,604	-	1,382	126,063
Telephone	8,807	10,074	1,392	1,127	21,400
Supplies	25,562	5,194	1,251	805	32,812
Periodicals	4,737	2,423	1,290	-	8,450
Professional fees	4,060	2,240	350	350	7,000
Repairs and maintenance	128,125	25,680	-	888	154,693
Computer support and maintenance	62,956	22,462	8,673	3,996	98,087
Databases	23,361	10,800	4,800	1,600	40,561
Insurance	12,726	5,681	311	1,203	19,921
Miscellaneous	4,104	1,471	-	-	5,575
Postage and freight	4,587	1,460	-	-	6,047
Travel and meetings	776	56	-	-	832
Professional development	3,633	400	7	7	4,047
Collection agency	9,151	4,646	211	70	14,078
Grant expenses	7,781	-	-	-	7,781
Reading programs	518	3,521	370	2	4,411
Total expenditures	<u>1,651,831</u>	<u>512,332</u>	<u>85,429</u>	<u>42,564</u>	<u>2,292,156</u>
Excess revenue over expenditures	99,024	29,645	1,385	2,764	132,818
Fund balance - beginning of year	<u>670,573</u>	<u>363,537</u>	<u>34,287</u>	<u>17,475</u>	<u>1,085,872</u>
Fund balance - end of year	<u>\$ 769,597</u>	<u>\$ 393,182</u>	<u>\$ 35,672</u>	<u>\$ 20,239</u>	<u>\$ 1,218,690</u>

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Net change in governmental fund balances	\$ 132,818
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital asset additions as expenditures, however, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital purchases	(33,993)
Accrued vacation pay included in statement of activities do not require use of current financial resources and therefore are excluded from expenditures in the governmental funds	<u>(9,848)</u>
Change in net position of governmental activities	<u>\$ 88,977</u>

See notes to financial statements.

LINEBAUGH PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity - The financial statements presented are for the combined operations of Linebaugh Public Library, Murfreesboro, Tennessee; Smyrna Public Library, Smyrna, Tennessee; Myrtle Lord Library, Murfreesboro, Tennessee; and Eagleville Bicentennial Library, Eagleville, Tennessee (effective January 1, 2006). The Linebaugh Public Library System is considered a joint venture between the City of Murfreesboro, Tennessee, and City of Smyrna, Tennessee, and Rutherford County, Tennessee. The Library System is financed primarily by contributions from these entities. The city councils and county commission appoint the Board members. The Linebaugh Public Library Foundation is a legally separate, tax-exempt component unit of the Library System. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Library System in support of its programs. Although the Library System does not control the timing or amount of funds available from the foundation, all funds held by the foundation are for the ultimate benefit of the Library System, and therefore the foundation is considered a component unit of the Library System and is discretely presented in the Library System's financial statements. The foundation does not prepare separate financial statements.

Government Wide and Fund Financial Statements - The government wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Library System as a whole. Individual fund statements are not displayed. The Library System only has governmental fund activities.

The statement of activities reports the expenses of the Library System's program, which is the operation of the public library system in Murfreesboro and Smyrna. Program revenues include fees, fines and grants. General revenues consist primarily of local governmental funding. The fund financial statements are provided for the Library System's governmental funds.

Basis of Accounting/Revenue Recognition - Government wide statements report using economic resources measurement focus and the accrual method of accounting which in general, requires that revenue be recorded when earned and expenses recorded when incurred. Governmental fund statements report using the current financial resources measurement focus and the modified accrual method of accounting. Revenues are recognized when they are measurable and available. The Library considers revenues collected within 60 days of the end of the fiscal year to be available. Expenditures are recorded when the related liability is incurred.

Major Funds - The Library System's accounts for the operation of the Murfreesboro and Smyrna Public Libraries are considered major funds. The Library System has elected to present the Myrtle Lord Library and the Eagleville Library as major funds in the governmental fund financial statements.

Fund Equity - In the fund financial statements, the Library reports the following components of fund balance: *Nonspendable*- amounts that are not available to be spent or legally or contractually required to remain intact. *Restricted*- amounts that are restricted for certain purposes such as outside parties, and *Unassigned*- all other

LINEBAUGH PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(continued)

Fund Equity(continued)

amounts available for any purpose. When expenses are incurred for which restricted and unrestricted sources are available, it is the Library's policy to first apply restricted resources.

Capital Assets and Depreciation – The Library System's capital assets consist primarily of furniture, fixtures, computer equipment, and its book collection. The Library Systems' buildings are owned by their respective city and the county. Capital assets costing \$1,500 or more with a useful life of one year or more are capitalized. The costs of normal repair and maintenance that do not add to the asset value or materially extend useful lives are expensed. Capital assets are depreciated using the straight line method using lives of 7-10 years for furniture and fixtures and 4 years for computer equipment. Books are depreciated using a composite depreciation method over a 5 year period. Works of art and book collections that are held for historical preservation are expensed. Books that are discarded are charged off against the cost of books and accumulated depreciation using the most recent average cost. Donated books are valued at \$15 per book.

Budgeting – The Library System prepares an operating budget which is approved by the Board of Directors. The budget is not legally adopted.

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 during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

The Library's cash deposits are entirely insured through federal depository insurance or the state multiple institution collateral pool. The Library System pools its cash and investments. Each fund's portion of a pool is displayed on its respective balance sheet as "pooled cash and cash equivalents". The Library System considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

The Library's investments are reported at cost which approximates fair value and consists of the following at June 30, 2013:

Certificate of deposit F&M Bank, .5%, mature 11/24/13	\$	103,665
Certificate of deposit F&M Bank, .5%, mature 11/24/13		103,665
Certificate of deposit First Bank, .90%, mature 4/28/2014		103,157
Certificate of deposit Region's Bank, 1.00%, mature 12/18/13		3,000
		<hr/>
	\$	313,487
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LINEBAUGH PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013

NOTE B – CASH AND INVESTMENTS (CONTINUED)

Statutes allow the Library to invest in certificates of deposit and the state treasurer's investment pool. Certificates of deposit are fully insured through federal depository insurance.

NOTE C – CAPITAL ASSETS

Capital assets changes for the yearended June 30, 2013 were as follows:

	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Cost				
Furniture and equipment	\$ 967,508	\$ 44,664	\$ -	\$ 1,012,172
Computers and software	523,095	46,964	-	570,059
Vehicles	110,771	-	-	110,771
Books	6,163,111	345,742	(198,231)	6,310,622
	<u>\$ 7,764,485</u>	<u>\$ 437,370</u>	<u>\$(198,231)</u>	<u>\$ 8,003,624</u>
Accumulated Depreciation				
Furniture and fixtures	\$ 786,071	\$ 63,078	\$ -	\$ 849,149
Computers and software	473,095	27,700	-	500,795
Vehicles	110,771	-	-	110,771
Books	5,389,503	380,585	(198,231)	5,571,857
	<u>\$ 6,759,440</u>	<u>\$ 471,363</u>	<u>\$(198,231)</u>	<u>\$ 7,032,572</u>

NOTE D - PENSION PLAN

Plan Description

Employees of Linebaugh Public Library System are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July

LINEBAUGH PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013

NOTE D – PENSION PLAN (CONTINUED)

1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Linebaugh Public Library System participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

Linebaugh Public Library System requires employees to contribute 5.0 percent of earnable compensation. Linebaugh Public Library System is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 9.05% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Linebaugh Public Library System is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2013, Linebaugh Public Library System's annual pension cost of \$76,817 to TCRS was equal to Linebaugh Public Library System's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. LINEBAUGH PUB LIB's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 3 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

LINEBAUGH PUBLIC LIBRARY SYSTEM

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013

NOTE D – PENSION PLAN (CONTINUED)

Three year trend information is summarized as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2013	\$ 76,817	100.0%	\$ -
June 30, 2012	\$ 63,475	100.0%	\$ -
June 30, 2011	\$ 64,032	100.0%	\$ -

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 95.71 percent funded. The actuarial accrued liability for benefits was 2.49 million, and the actuarial value of assets was \$2.38 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.11 million. The covered payroll (annual payroll of active employees covered by the plan) \$0.66 million, and the ratio of the UAAL to the covered payroll was 16.21 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

NOTE E - ACCRUED VACATION

Accrued vacation carryover is based on years of service. An employee working 1-5 years can carryover 30 days, while 5-10 years is 36 days, 10-20 years is 39 days, and 20+ years is 42 days. At June 30, 2013 \$89,232 was accrued for vacation liabilities.

NOTE F - RISK MANAGEMENT

The Library System is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, natural disasters, injuries to employees, etc. The library system carries commercial insurance to cover significant losses. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the last three fiscal years.

LINEBAUGH PUBLIC LIBRARY SYSTEM

SCHEDULE OF FUNDING PROGRESS

(pension plan)

June 30, 2013

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2011	\$ 2,380	\$ 2,487	\$ 107	95.71%	\$ 658	16.21%
7/1/2009	\$ 1,916	\$ 1,932	\$ 16	99.15%	\$ 744	2.21%
7/1/2007	\$ 1,740	\$ 1,760	\$ 20	98.86%	\$ 745	2.68%

The Governmental Accounting Standards Board(GASB) requires the plan to present the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method was a change made during the year of the most recent actuarial valuation date, therefore only the most current year is presented.

**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 Board of Directors
Linebaugh Public Library System

We have audited, 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 the financial statements of the governmental activities, the discretely presented component unit and each major fund of the Linebaugh Public Library System as of and for the year ended June 30, 2013, and have issued our report thereon dated December 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Linebaugh Public Library System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Linebaugh Public Library System's control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Linebaugh Public 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings (Findings 2013-1, 2013-2, 2013-3) that we consider to be significant deficiencies in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Linebaugh Public Library System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Linebaugh Library System's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Library'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.

Dempsey Vantrease + Folli PLLC

Murfreesboro, Tennessee
December 6, 2013

LINEBAUGH PUBLIC LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2013

Part I – Summary of Auditor Results

Type of report issue: unqualified

Internal control over financial reporting:

- Material weakness identified? No
- Significant deficiency identified that are not considered material weakness? Yes

Noncompliance material to financial statements noted: No

Part II – Financial Statement Finding

Finding 2013-1

Criteria: Bank reconciliation duties, cash disbursements and bank deposit duties should be segregated.

Condition: Bookkeeper currently prepares all checks and reconciles all accounts and makes the bank deposits.

Cause: Library system does not have enough staff to properly segregate such duties.

Effect: Errors or irregularities could occur and not be discovered in a timely manner.

Recommendation: Management should consider implementing policies to allow for separation of duties.

Response: We feel the dual check signing by our treasurer and Library Director mitigates this to large degree, and the Library Director does receive the bank statement directly and review it each month. Our limited staff may make it difficult to segregate the bank deposit duties, but we will consider assigning that responsibility to another person. We may consider having the Library Director review the bank deposits each month and compare the deposits to other internally produced records of cash receipts.

LINEBAUGH PUBLIC LIBRARY SYSTEM

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

June 30, 2013

Finding 2013-2

Criteria: Financial statements should be prepared in accordance with generally accepted accounting principles (GAAP).

Condition: Preparation of financial statements at end of year requires significant assistance from auditor to comply with GAAP.

Cause: Library staff does not have the training or expertise necessary to prepare financial statements in accordance with GAAP.

Effect: Library relies on auditor to adjust year end books to comply with GAAP.

Recommendation: Management should consider putting in place procedures to enable the Library to prepare financial statements in accordance with GAAP.

Response: We do not believe it is practical for us to acquire the necessary expertise to prepare GAAP based financial statements. Our internal statements mainly reflect our cash transactions and are most meaningful to management and the board of directors to assist in operating the library. We do not believe we would see any significant benefit from being able to consistently produce GAAP basis reports.

Finding 2013-3

Criteria: Transactions should be supported by appropriate supporting documentation.

Condition: The Library was unable to locate supporting invoices and canceled checks for two of eighteen checks requested for testing of year end accounts payable and two of nineteen repairs and maintenance selections.

Cause: Library staff felt that these were isolated instances related to the prior retrieval of files for inspection that were misplaced.

Effect: Library cannot properly support recorded transactions with original supporting documentation.

Recommendation: Management should consider putting in place procedures to ensure proper record retention and restrict access appropriately to prevent misfiling.

Response: We believe that the missing documentation above is due to isolated filing issues and will work to ensure records retention practices are monitored and adhered to.

LINEBAUGH PUBLIC LIBRARY SYSTEM

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

June 30, 2013

Comments on Prior Audit Findings and Related Resolutions

Finding 2012-1

Criteria: Bank reconciliation duties, cash disbursements and bank deposit duties should be segregated.

Condition: Bookkeeper currently prepares all checks and reconciles all accounts and makes the bank deposits.

Current year update- No changes noted during the current year audit.

Finding 2012-2

Criteria: Financial statements should be prepared in accordance with generally accepted accounting principles (GAAP).

Condition: Preparation of financial statements at end of year requires significant assistance from auditor to comply with GAAP.

Recommendation: Management should consider putting in place procedures to enable the Library to prepare financial statements in accordance with GAAP.

Current year update- No changes noted during the current year audit.

LINEBAUGH PUBLIC LIBRARY SYSTEM

ROSTER OF OFFICIALS

June 30, 2013

Board of Directors

Gary E. Green	Chairman
Richard Garvin, Jr.	Vice Chairperson
Marilyn Castelli	Treasurer
Christie Lee	Secretary
Lisa Trail	Member
Kari Sostrom	Member
Nell Blankenship	Member
Suma Clark	Member
Ross Spielman	Member
Madelyn Scales Harris	Member
Dicken Kidwell	Member
Marcie Richmond	Member
Chantho Sourinho	Member
Andy Rubin	Member

Management

Rita Shacklett	Executive Director
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