

MARION COUNTY LIBRARY BOARD

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

JOHNSON, MURPHEY & WRIGHT, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA, TENNESSEE

I. INTRODUCTORY SECTION

MARION COUNTY LIBRARY BOARD
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June 30, 2014

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MARION COUNTY LIBRARY BOARD
Directors/Officers
June 30, 2014

Chairman Jerry Don Moss
Secretary Suzanne Adcock
Treasurer Nicole Nelson
Director Charlie McEntyre
Director Linda Hooper
Director Pat Price
Director Janet Middlebrooks
Director Wanda Gentry
Director Renee Looney

II. FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Marion County Library Board

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund information of the Marion County Library Board, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board'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

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

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Marion County Library Board, as of June 30, 2014, 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 TCRS Schedule of Funding Progress listed in the Table of Contents 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.

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion County Library Board's basic financial statements. The Introductory Section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Board of Directors
Marion County Library Board
Page Three

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2015, on our consideration of the Marion County Library Board'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 the Marion County Library Board's internal control over financial reporting and compliance.

Johnson, Murphy & Wright, P.C.

Chattanooga, Tennessee
January 27, 2015

BASIC FINANCIAL STATEMENTS

MARION COUNTY LIBRARY BOARD
Statement of Net Position
June 30, 2014

	Governmental Activities
ASSETS	
Cash	\$ 47,317
Prepaid	187
Capital assets, net of accumulated depreciation	
Library collections and books	1,794,532
TOTAL ASSETS	\$ 1,842,036
LIABILITIES	
Payroll liabilities	\$ 4,102
TOTAL LIABILITIES	\$ 4,102
NET POSITION	
Investment in capital assets	\$ 1,794,532
Unrestricted	43,402
TOTAL NET POSITION	\$ 1,837,934

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

MARION COUNTY LIBRARY BOARD
Statement of Activities
Year Ended June 30, 2014

	Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Fines	Operating Grants and Contributions
			Governmental Activities
GOVERNMENTAL ACTIVITIES			
Program services	\$ 309,888	\$ 15,823	\$ -
Support services	6,678	-	140,066
Total governmental activities	\$ 316,566	\$ 15,823	\$ 140,066
GENERAL REVENUES			
Interest revenue			34
Miscellaneous			367
Donated collections and books			674,739
Grants and contributions - unrestricted			12,028
Total general revenues			687,168
Change in net position			526,491
Net position - beginning			1,311,443
Net position - end			\$ 1,837,934

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

MARION COUNTY LIBRARY BOARD
Governmental Funds
Balance Sheet
June 30, 2014

	<u>General Fund</u>
ASSETS	
Cash	\$ 47,317
Prepaid	<u>187</u>
TOTAL ASSETS	<u>\$ 47,504</u>
 LIABILITIES AND FUND BALANCES	
Liabilities	
Payroll liabilities	\$ 4,102
Total liabilities	<u>4,102</u>
 Fund balances	
Unassigned	<u>43,402</u>
Total fund balances	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 47,504</u>

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

MARION COUNTY LIBRARY BOARD
Reconciliation of Fund Balance to the Statement of Net Position
June 30, 2014

Total fund balance per governmental funds Balance Sheet	\$ 43,402
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>1,794,532</u>
Net position of governmental activities	<u>\$ 1,837,934</u>

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

MARION COUNTY LIBRARY BOARD
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
June 30, 2014

	<u>General Fund</u>
REVENUES	
Local governmental appropriations	\$ 140,066
Grants and contributions	12,028
Donated collections and books	674,739
Fines and fees	14,520
Book sales	1,303
Interest income	34
Miscellaneous	<u>367</u>
Total revenue	<u>843,057</u>
EXPENDITURES	
Program services	848,201
Support services	<u>6,678</u>
Total expenditures	<u>854,879</u>
Excess (deficiency) of revenues over (under) expenditures	(11,822)
FUND BALANCES - beginning	<u>55,224</u>
FUND BALANCES - end	<u>\$ 43,402</u>

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

MARION COUNTY LIBRARY BOARD
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
June 30, 2014

Net change in fund balances for total governmental funds	\$ (11,822)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	<u>538,313</u>
Change in net position of governmental activities	<u>\$ 526,491</u>

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

MARION COUNTY LIBRARY BOARD
Notes to Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The following is a summary of the more significant accounting policies:

A. Reporting Entity

Marion County Library Board is a non-profit entity which operates under provisions of the laws of Tennessee. The Entity is governed by a chairman and board members who jointly oversee the general administrative responsibilities. Because it is primarily funded by allocations from local governments and provides services to the public, it is classified as a “special purpose” government.

The City of South Pittsburg, City of Whitwell and Town of Jasper participate in the joint operation of the Marion County Library Board. The Marion County Library Board consists of nine members. The Marion County Library Board, however, does not qualify as a component unit of the City of South Pittsburg, City of Whitwell or Town of Jasper and has no component units based on the criteria of GASB Statement No. 14 as amended by GASB Statement No. 39.

B. Basic Financial Statements

The basic financial statements include both government-wide (based on the Entity as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities.

Government-wide Statements - The Entity’s government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental Activities for the Entity applicable to governmental units which are generally accepted in the United States of America.

The Statement of Net Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Entity’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational requirements of a particular program. The net cost (by function) is normally covered by general revenue (unrestricted grants and contributions, interest income, etc.).

This government-wide focus is designed to view the Marion County Library Board as a complete entity and the change in aggregate financial position resulting from the activities of the fiscal period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements (Continued)

Fund Financial Statements - The fund financial statements provide information about the Entity's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on the major governmental fund.

The Entity reports the following major governmental fund:

General Fund - This is the Entity's primary operating fund. It accounts for all financial resources of the Entity, except those required to be accounted for in another fund.

C. Measurement Focus - Basis of Accounting

The government-wide financial statements are presented in an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the Entity's assets, deferred outflows, liabilities, and deferred inflows, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues are reported in two categories 1) charges for services; and 2) operating grants and contributions.

Government Fund Financial Statements

Government fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. The Entity has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to financial expenditures of the current period. Accordingly, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Entity considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences claims and judgments are recorded when payment is due.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental activities column in the government-wide financial statements, a reconciliation is presented on the page following each statement which briefly explains the adjustments necessary to transform the fund-based financial statements into the governmental activities column of the government-wide presentation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Balance Policy

Committed Fund Balances:

The Board of Directors has the authority to commit funds for a specific purpose. Any funds set aside as committed fund balance requires, at a minimum, the passage of a resolution by a simple majority vote. An ordinance may also be used.

Assigned Fund Balance:

The Board of Directors has the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as assigned fund balance requires a simple majority vote and must be recorded in the minutes.

Order of Use of Restricted and Unrestricted Funds:

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last.

E. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles but are not required to be included in this presentation. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end. Budgeted amounts are as originally adopted, or as amended by the Board prior to June 30, 2014.

F. Cash and Cash Equivalents

For financial statement purposes, the Entity considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

G. Collections and Books

The Entity's collections and books are capitalized and depreciated under group methods for lives ranging from 10 to 40 years.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Income Tax Status

The Marion County Library Board is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501 of the Code. The Entity accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefits are estimated based on the cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Entity include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the Entity has determined that such tax positions do not result in an uncertainty requiring recognition.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Contributed Facilities and Services

The Entity occupies, without charge, premises owned by Marion County. The estimated fair rental value of the premises is not included in the accompanying statements.

A number of unpaid volunteers have made significant contributions of their time to develop the Entity's programs. The value of this contributed time is not reflected in these statements as no reliable basis exists for determining an appropriate amount.

K. Net Position

Net position is the residual of all elements presented in the Statement of Financial Position (i.e., assets + deferred outflows - liabilities - deferred inflows). Net investment in capital assets represent capital assets reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets. Restricted net position represents restricted assets reduced by any related outstanding debt.

L. Deferred Outflows/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, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Entity has no items that qualify for reporting as a deferred outflow of resources.

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, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Currently, the Entity has no items that qualify for reporting as a deferred inflow of resources.

M. Events Occurring after Reporting Date

The Entity has evaluated events and transactions that occurred between June 30, 2014, and January 27, 2015, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - DEPOSITS

Deposits

Custodial credit risk is the risk that in the event of a bank failure the Entity's deposits may not be returned to it. The Entity does not have a deposit or investment policy for custodial credit risk, however, the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, Chapter 4, Parts 1 and 4, or as provided in the collateral pool. As of June 30, 2014, the carrying amount of the Entity's deposits was \$47,317 and the bank balance was \$51,442. None of the Entity's bank balance was exposed to custodial credit risk as uninsured or uncollateralized due to the fact that all of its deposits are fully collateralized.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Government activities:				
Capital assets being depreciated:				
Library collections and books	<u>\$ 2,538,113</u>	<u>\$ 674,739</u>	<u>\$ (150,579)</u>	<u>\$ 3,062,273</u>
Total capital assets being depreciated	<u>2,538,113</u>	<u>674,739</u>	<u>(150,579)</u>	<u>3,062,273</u>
Less accumulated depreciation for:				
Library collections and books	<u>1,281,894</u>	<u>136,426</u>	<u>(150,579)</u>	<u>1,267,741</u>
Total accumulated depreciation	<u>1,281,894</u>	<u>136,426</u>	<u>(150,579)</u>	<u>1,267,741</u>
Total capital assets being depreciated - net	<u>1,256,219</u>	<u>538,313</u>	<u>-</u>	<u>1,794,532</u>
Governmental activities capital assets - net	<u>\$ 1,256,219</u>	<u>\$ 538,313</u>	<u>\$ -</u>	<u>\$ 1,794,532</u>

Depreciation expense charged to programs is as follows:

Program services	<u>\$ 136,426</u>
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NOTE 4 - RISK MANAGEMENT

The Entity is exposed to various risks of loss to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Entity carries commercial insurance. For insured programs, there have been no significant reductions in insurance coverage for the current year or the three prior years.

NOTE 5 - CONCENTRATIONS

The Entity is highly dependent on government funding that could be discontinued at anytime. The Entity believes that it is highly unlikely that funding would be discontinued because of the nature of the services provided.

NOTE 6 - FUND BALANCE RELATED TO GASB STATEMENT 54

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes standards for fund balance classifications for state and local governments and requires that resources be classified for accounting reporting purposes into the following fund balances:

Nonspendable, restricted, committed, assigned and unassigned.

Unassigned Fund Balance

In accordance with generally accepted accounting principles, the General Fund is the only fund at the Board that reports amounts for unassigned fund balance. This classification represents fund balance that is not nonspendable and has not been committed to specific purposes within the General Fund.

NOTE 7 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities:

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between net changes in fund balances for total governmental funds and changes in net position of governmental activities as reported in the government-wide Statement of Activities. One element of that reconciliation explains that, "Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$538,313 difference are as follows:

Capital outlay	\$ 674,739
Depreciation expense	<u>(136,426)</u>
Net adjustment	<u>\$ 538,313</u>

NOTE 8 - EMPLOYEE RETIREMENT PLAN

The Marion County Library Board's employees are included in the Marion County Courthouse Employees' TCRS pension plan.

Plan Description

Employees of the Marion County Courthouse are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Marion County Courthouse 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, 15th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

The Marion County Courthouse requires employees to contribute 5.0 percent of earnable compensation.

The Marion County Courthouse is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2014, was 6.51% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement of the Marion County Courthouse is established and may be amended by the TCRS Board of Trustees.

NOTE 8 - EMPLOYEE RETIREMENT PLAN (Continued)

Annual Pension Cost

For the year ended June 30, 2014, the Marion County Courthouse's annual pension cost of \$581,841 to TCRS was equal to the Marion County Courthouse'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. The Marion County Courthouse'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.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2014	\$581,841	100.00%	\$0.00
June 30, 2013	\$573,422	100.00%	\$0.00
June 30, 2012	\$570,851	100.00%	\$0.00

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 96.22 percent funded. The actuarial accrued liability for benefits was \$24.93 million, and the actuarial value of assets was \$23.99 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.94 million. The covered payroll (annual payroll of active employees covered by the plan) was \$8.39 million, and the ratio of the UAAL to the covered payroll was 11.22 percent.

The Schedule of Funding Progress, presented as Required Supplementary Information (RSI) following the Notes to the Financial Statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
July 01, 2013	\$23,993	\$24,935	\$ 942	96.22%	\$8,394	11.22%
July 01, 2011	\$21,291	\$21,894	\$ 603	97.25%	\$8,528	7.07%
July 01, 2009	\$17,340	\$17,340	\$ 0	100.00%	\$8,229	0.00%

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

MARION COUNTY LIBRARY BOARD
Tennessee Consolidated Retirement System
Schedule of Funding Progress
June 30, 2014

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2013	\$23,993	\$24,935	\$942	96.22%	\$8,394	11.22%
July 1, 2011	\$21,291	\$21,894	\$603	97.25%	\$8,528	7.07%
July 1, 2009	\$17,340	\$17,340	\$0	100.00%	\$8,229	0.00%

III. INTERNAL CONTROL AND COMPLIANCE SECTION



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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 Board of Directors
Marion County Library Board

We 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 the Marion County Library Board as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Marion County Library Board's basic financial statements and have issued our report thereon dated January 27, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Marion County Library Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marion County Library Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marion County Library Board's internal control.

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. 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 internal control was for the limited purpose described in the first paragraph of this section 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. 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as 14-1, which we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marion County Library Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings and Responses as item 14-2.

Marion County Library Board's Response to Findings

The Marion County Library Board's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Marion County Library Board's response was not subjected to the auditing procedures applied in the audit of the financial statements 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 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.

Johnson, Murphey & Wright, P.C.

Chattanooga, Tennessee
January 27, 2015

MARION COUNTY LIBRARY BOARD
Schedule of Findings and Responses
June 30, 2014

SUMMARY OF AUDIT RESULTS

Opinion:

Unqualified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Deficiencies:

During the audit of the financial statements, one significant deficiency in internal controls was disclosed.

Material Noncompliance:

One instance of material noncompliance was disclosed.

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

INTERNAL CONTROL:

Finding 14-1 - Approvals and documentation

Criteria:

Government Auditing Standards Chapter A.06(h) states that “inadequate controls for the safeguarding of assets” is a control deficiency.

Condition:

1. Transactions from each location are not being entered into the Board’s books (general ledger).
2. Bank statements are not being opened, reviewed, and initialed by the Board’s Director each month.
3. Bank statements are not reconciled each month for all locations.
4. A copy of the bank statements for all locations are not mailed directly to the Treasurer.
5. Most invoices are not being initialed as approved for payment.
6. Not all disbursements selected for testing had proper documentation attached (i.e., invoices).
7. Not all deposits selected for testing had proper documentation.
8. Credit card statements are not being initialed as approved after being reviewed.
9. A personal expense was charged to the Board’s credit card and repaid with a personal check.
10. The Board does not have a QuickBooks payroll system to prepare quarterly payroll tax returns and W-2s at year end.

MARION COUNTY LIBRARY BOARD
Schedule of Findings and Responses
June 30, 2014

FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (Continued)

INTERNAL CONTROL: (Continued)

Finding 14-1 - Approvals and documentation (Continued)

Cause:

1. Transactions from each location are not being summarized on a spreadsheet each month and posted to the Board's books.
2. Bank statements are not being properly reviewed by the Board's Director.
3. A policy is not in place to ensure bank statements for all locations are reconciled each month.
4. Bank statements are mailed to each location, but not to the Board's Treasurer.
5. An approval process was not followed so that every invoice was initialed as approved for payment.
6. A document retention process was not in place to ensure all invoices were kept.
7. A document retention process was not in place to ensure all deposits were properly documented (i.e., collection sheets, deposit slips).
8. An approval process was not in place to ensure credit card statements were reviewed and initialed.
9. The Board's credit card was used in error for a personal charge.
10. The Board has not purchased the correct payroll software.

Effect:

1. If the transactions of each location are not posted on the Board's general ledger, the Board's financial statements are not accurate.
2. Bank statements should be opened, reviewed and initialed by the Board's Director each month in order for the Board's expenses to be examined.
3. If bank statements are not reconciled, unauthorized expenses could be charged to the Board.
4. The Treasurer does not review the bank statements and cannot examine the Board's expenses.
5. If an approval process is not followed, unauthorized expenses could be charged to the Board.
6. If invoices are not kept, the nature and purpose of each disbursement is not known and unauthorized expense could be charged to the Board.
7. If proper deposit documentation is not kept, funds could be misappropriated instead of being deposited.
8. If credit card statements are not reviewed and initialed, unauthorized expenses could be charged to the Board.
9. Personal expenses could be charged to the Board's credit card.
10. Without the correct payroll software, the Board is not able to prepare the required payroll forms.

Management's Response:

We concur. We are implementing new procedures to correct these issues in the future.

MARION COUNTY LIBRARY BOARD
Schedule of Findings and Responses
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FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (Continued)

COMPLIANCE:

Finding 14-2 - Form 941 Not Filed on a Timely Basis

Criteria:

The IRS requires employers to file Form 941 in accordance with the form's instructions.

Condition:

Not all Form 941s were filed on a timely basis.

Cause:

Changes in the Board's employees led to Form 941s erroneously being filed late.

Effect:

Without filing all Form 941s on a timely basis, the Board is not in compliance with IRS requirements.

Management's Response:

We concur. We have corrected the issue and are now filing the form on time.

MARION COUNTY LIBRARY BOARD
Schedule of Prior Audit Findings
June 30, 2014

INTERNAL CONTROL:

None disclosed.

COMPLIANCE:

None disclosed.