

MORRISTOWN-HAMBLE LIBRARY

FINANCIAL STATEMENTS

Year Ended June 30, 2014

MORRISTOWN-HAMBLEN LIBRARY  
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MORRISTOWN-HAMBLEN LIBRARY  
ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS

Ann Cranford, Vice-Chairman  
Morristown, Tennessee

Jimmy Hammock, Treasurer  
Morristown, Tennessee

Jyothi Ramaprasad, Secretary  
Morristown, Tennessee

Leona Tilson  
Morristown, Tennessee

Nancy Burnett  
Talbot, Tennessee

Bill Brittain  
Morristown, Tennessee

Ronald C. Peterson  
Morristown, Tennessee

Carol Reams  
Morristown, Tennessee

Christina Mosley, Director  
Morristown, Tennessee

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees and Management  
Morristown-Hamblen Library  
Morristown, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the general fund of Morristown-Hamblen Library, Morristown, Tennessee, as of and for the year ended June 30, 2014, 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**

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 of 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.

To the Board of Trustees and Management  
Morristown-Hamblen Library  
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### **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 general fund of Morristown-Hamblen Library, as of June 30, 2014, and the respective changes in financial position and fund balance for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Morristown-Hamblen Library's management has omitted 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morristown-Hamblen Library's basic financial statements. The roster of Board Members and Management Officials is presented for purposes of additional analysis and is not a required part of the basic financial statements. The roster 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014, on our consideration of Morristown-Hamblen Library'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 Morristown-Hamblen Library's internal control over financial reporting and compliance.

*Purkey, Carter, Compton, Swann & Carter, PLLC*

Morristown, Tennessee  
December 18, 2014

MORRISTOWN-HAMBLEEN LIBRARY  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET  
June 30, 2014

	<u>General Fund</u>	<u>Adjustments (Note F)</u>	<u>Statement of Net Position</u>
<b>Assets</b>			
Cash, primarily interest bearing	\$ 108,376	\$ -	\$ 108,376
Prepaid expenses	11,101	-	11,101
Land	-	185,000	185,000
Other capital assets, net of accumulated depreciation	-	<u>1,583,367</u>	<u>1,583,367</u>
<b>Total Assets</b>	<u>\$ 119,477</u>	<u>\$ 1,768,367</u>	<u>\$ 1,887,844</u>
<b>Liabilities</b>			
Accounts payable	\$ 14,337	\$ -	\$ 14,337
Wages and payroll tax payable	<u>33,433</u>	<u>-</u>	<u>33,433</u>
<b>Total Liabilities</b>	47,770	-	47,770
<b>Fund Balance/Net Position</b>			
<b>Fund Balance</b>			
Nonspendable	11,101	(11,101)	-
Restricted	9,406	(9,406)	-
Unassigned	<u>51,200</u>	<u>(51,200)</u>	<u>-</u>
<b>Total Fund Balance</b>	71,707	(71,707)	-
<b>Net Position</b>			
Net investment in capital assets	-	1,768,367	1,768,367
Restricted	-	9,406	9,406
Unrestricted	<u>-</u>	<u>62,301</u>	<u>62,301</u>
<b>Total Net Position</b>	<u>-</u>	<u>1,840,074</u>	<u>1,840,074</u>
<b>Total Liabilities and Fund Balance/Net Position</b>	<u>\$ 119,477</u>	<u>\$ 1,768,367</u>	<u>\$ 1,887,844</u>

MORRISTOWN-HAMBLEEN LIBRARY  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended June 30, 2014

	<u>General Fund</u>	<u>Adjustments (Note F)</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Local government appropriations	\$ 522,980	\$ -	\$ 522,980
State and other grants	11,030	-	11,030
Fines and charges	39,939	-	39,939
Gifts and memorials	9,433	-	9,433
Interest	<u>313</u>	<u>-</u>	<u>313</u>
 Total Revenues	 583,695	 -	 583,695
<b>Expenditures</b>			
Library services			
Labor	301,496	-	301,496
Labor benefits	74,414	-	74,414
Periodicals	4,399	-	4,399
Depreciation	-	161,086	161,086
Utilities	31,191	-	31,191
Repairs and maintenance	15,355	-	15,355
Supplies	23,335	-	23,335
Insurance	16,722	-	16,722
Telephone and internet	3,153	-	3,153
Computer upgrade and maintenance	27,439	-	27,439
Professional services	5,500	-	5,500
Travel, training and dues	2,788	-	2,788
Equipment rental	1,631	-	1,631
Miscellaneous	5,045	-	5,045
Capital outlay			
Building and equipment	13,593	(13,593)	-
Circulation materials	<u>58,477</u>	<u>(58,477)</u>	<u>-</u>
 Total Expenditures	 <u>584,538</u>	 <u>89,016</u>	 <u>673,554</u>
 Excess (Deficiency) of Revenues Over Expenditures/Net Change in Fund Balance			
	(843)	843	-
Change in Net Position	-	(89,859)	(89,859)
 Fund Balance/Net Position			
Beginning of Year	<u>72,550</u>	<u>1,857,383</u>	<u>1,929,933</u>
End of Year	<u>\$ 71,707</u>	<u>\$ 1,768,367</u>	<u>\$ 1,840,074</u>

MORRISTOWN-HAMBLLEN LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements present the activities of Morristown-Hamblen Library. The Morristown-Hamblen Library (the Library) is a joint venture of two equal participants, the City of Morristown and Hamblen County, Tennessee, created to provide public library service to the general public. The Library is financed primarily by appropriations from these entities. The Board of Trustees of Morristown-Hamblen Library consists of nine members of which the Hamblen County Commission appoints four members, the City of Morristown appoints three members, and the remaining two members are members of the Regional Library Board. The Library's operating budget is adopted and controlled by its Board of Trustees without requiring the participants' approval. However, the participants have indirect control of the budget through the amount of annual appropriations.

Basis of Presentation

Government-wide Statements:

The statement of net position and the statement of activities display information about the Library and its overall financial activities.

Fund Financial Statements:

The fund financial statements provide information about the Library's funds. The emphasis of fund financial statements is on major funds, each displayed in a separate column. The operations of the Library are accounted for in one type of governmental fund, the General Fund, which is the general operating fund of the Library. It is used to account for the acquisition, use, and balances of the Library's expendable financial resources and the related liabilities.

Measurement Focus, Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available. Available means collectible within the current period or within 60 days after year end. Expenditures generally are recognized when the liability is incurred.

Capital Assets

Capital assets are reported in the governmental activities column of the government-wide statement of net position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their estimated fair value at the date of donation. The Library maintains a capitalization threshold of \$250. The Library does not possess any infrastructure. Improvements are capitalized; the

MORRISTOWN-HAMBLLEN LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Capital assets are depreciated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 60 years. Books and other circulation materials with an estimated life greater than one year are capitalized and depreciated using a group depreciation method with lives ranging from 3 to 7 years.

Fund Balance

The Library's fund balance is reported using the following classifications:

Nonspendable items – this category includes items that cannot be spent because of their form. This includes such items as prepaid expenses and grants receivable.

Restricted items – this category includes fund balances that are limited by external parties for specific future use.

Assigned items – this category includes fund balances that contain constraints that are self-imposed by the board to be used for particular purposes.

Unassigned items – represent the remainder of the Library's fund balance that is not limited for any particular purpose.

When both restricted and unassigned funds are available for the same purpose, it is the Library's policy to use restricted funds first. Furthermore, assigned funds are reduced before unassigned funds when expenditures are incurred for which either of these unrestricted fund balance classifications can be used.

Net Position

Net position represents the residual of all elements presented in a statement of financial position and is classified into three categories: net investment in capital assets, restricted and unrestricted. Net investment in capital assets are reduced by the outstanding balances, if any, of borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are external restrictions placed on use by donors or grantors. It is the Library's policy to apply restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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.

Contract Labor

Labor for Library personnel is contracted with Hamblen County, Tennessee. Appropriate labor costs, payroll taxes, benefits, etc. are paid by the County and reimbursed by the Library.

MORRISTOWN-HAMBLLEN LIBRARY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2014

Compensated Absences

Personnel of the Library are entitled to paid vacation depending on classification and length of service. At least one half of annual leave must be used each fiscal year with remaining unused time converted to sick leave. Vacation time may not be accumulated and carried forward to the next fiscal year. Accumulated sick leave has no value except for the purpose granted and in the event of separation, all unused sick leave will be forfeited.

Deposit and Investment Policies

Morristown-Hamblen Library follows state and county guidelines mandating collateralized or insured accounts for deposits and investments. The Library is included in Hamblen County government's contract with local financial institutions which requires that the institution be a participant in the State of Tennessee Bank Collateral Pool.

Subsequent Events

Morristown-Hamblen Library evaluated subsequent events through December 18, 2014, the date the financial statements were available to be issued.

NOTE B - CAPITAL ASSETS

Changes in fixed assets for year ended June 30, 2014, were as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 185,000	\$ -	\$ -	\$ 185,000
Capital assets being depreciated:				
Building and improvements	1,945,529	4,389	-	1,949,918
Circulation materials	1,043,952	58,478	37,488	1,064,942
Furniture and equipment	<u>399,705</u>	<u>9,203</u>	<u>-</u>	<u>408,908</u>
Total capital assets being depreciated	3,389,186	72,070	37,488	3,423,768
Less accumulated depreciation for:				
Buildings and improvements	615,614	70,081	-	685,695
Circulation materials	835,944	64,518	37,488	862,974
Furniture and equipment	<u>265,245</u>	<u>26,487</u>	<u>-</u>	<u>291,732</u>
Total accumulated depreciation	<u>1,716,803</u>	<u>161,086</u>	<u>37,488</u>	<u>1,840,401</u>
Total capital assets being depreciated, net	<u>1,672,383</u>	<u>(89,016)</u>	<u>-</u>	<u>1,583,367</u>
Capital assets, net	<u>\$ 1,857,383</u>	<u>\$ (89,016)</u>	<u>\$ -</u>	<u>\$ 1,768,367</u>

MORRISTOWN-HAMBLLEN LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

NOTE C - RISK MANAGEMENT

Morristown-Hamblen Library is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to personnel and natural disasters. The Library purchases commercial insurance for all of these risks of loss. Settled claims have not exceeded this commercial coverage in any of the last three fiscal years.

NOTE D - RESTRICTED FUND BALANCE/RESTRICTED NET POSITION

The restricted fund balance and restricted net position of \$9,406 at June 30, 2014, consisted of cash restricted for renovation maintenance.

NOTE E - NONSPENDABLE FUND BALANCE

The nonspendable fund balance of \$11,101 at June 30, 2014, consisted of prepaid expenses.

NOTE F - EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUND  
BALANCE SHEET AND STATEMENT OF NET POSITION AND BETWEEN  
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES

The Library's fund balance and net change in fund balance differ from net position and change in net position primarily as a result of the long-term economic focus of the statement of net position and the statement of activities versus the current financial resources focus of governmental funds.

When capital assets are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the Library as a whole.

Nonspendable fund balance	\$ 11,101
Restricted fund balance	9,406
Unassigned fund balance	51,200
Cost of capital assets	3,608,768
Accumulated depreciation	<u>(1,840,401)</u>
Total Net Position	<u>\$ 1,840,074</u>

MORRISTOWN-HAMBLEEN LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year.

Excess (deficiency) of revenues over expenditures	\$ (843)
Capital outlay:	
Building and equipment	13,593
Circulation materials	58,477
Depreciation expense	<u>(161,086)</u>
Change in net position	<u>\$ (89,859)</u>

INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE  
AND OTHER MATTERS

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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 Trustees and Management  
Morristown-Hamblen Library  
Morristown, Tennessee

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 general fund of Morristown-Hamblen Library, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Morristown-Hamblen Library's basic financial statements and have issued our report thereon dated December 18, 2014.

### **Internal Control over Financial Reporting**

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Morristown-Hamblen Library'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as described below.

#### 2014.1 Receipts Held for More Than Three Business Days

Condition: Although all funds are being receipted, they are not consistently deposited into the bank within three business days of receipt, as required by state law.

Recommendation: Management should ensure that Morristown-Hamblen Library procedures requiring semi-weekly deposits are being followed by personnel to comply with state law.

Management's Response: Management will enforce and monitor the semi-weekly deposit procedure.

Morristown-Hamblen Library's response to the finding identified in our audit is described above. Morristown-Hamblen Library'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 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 Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Purkey, Carter, Compton, Swann & Carter, PLLC*

Morristown, Tennessee  
December 18, 2014