

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

**Financial Statements
June 30, 2014**

THE HAWKINS COUNTY LIBRARY SYSTEM
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June 30, 2014

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Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Library Board
Hawkins County Library System
Rogersville, Tennessee

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and each major fund of the Hawkins County Library System as of and for the year ended June 30, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Hawkins County Library System as of June 30, 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 on pages 5-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hawkins County Library System's basic financial statements. The schedule of board members as listed in the table of contents and the Schedule of Revenue, Expenditures and Changes in Fund Balances-Budget and Actual-Operating Fund and the Schedule of Revenue, Expenditures, and Changes in Fund Balances-Budget and Actual-Contingency/Grant Fund on pages 19-20 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of board members, the Schedule of Revenue, Expenditures and Changes in Fund Balances-Budget and Actual-Operating Fund and the Schedule of Revenue, Expenditures, and Changes in Fund Balances-Budget and Actual-Contingency/Grant Fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated September 25, 2014, on my consideration of Hawkins County Library System's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hawkins County Library System's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "David M. Ellis".

David M. Ellis, CPA
Greeneville, TN
September 25, 2014

**THE HAWKINS COUNTY LIBRARY SYSTEM
BOARD MEMBERS AND MANAGEMENT
June 30, 2014**

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

Chairman
Secretary/Treasurer
Board
Board
Board
Board
Board
Board
Director
Manager-Church Hill
Manager-Surgoinsville

Management's Discussion and Analysis

As management of the Hawkins County Library System (Library), we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the Library's financial statements, which immediately follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the Library exceeded its liabilities at the close of the most recent fiscal year by \$356,679 (net position). Of this amount, \$132,968 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Library's governmental funds reported combined fund balances of \$199,945, an increase of \$12,600 in comparison with the prior year. Approximately 63% of this amount (\$132,968) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of *fund balance*) for the operating fund was \$199,945.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business. The statement of net position presents financial information on all of the Library's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The statement of activities presents information showing how the Library's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Library uses governmental funds to maintain its financial records during the year.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Library maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the library operating fund and the library contingency fund, which are considered to be major funds.

The Library adopts an annual budget for its major funds. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Library's government-wide and fund financial statements.

Government-Wide Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Library, assets and deferred outflows of resources exceeded liabilities by \$356,679 at the close of the most recent fiscal year.

Summary of Net Position

The following summarizes the net position of the Library at June 30, 2014:

	<u>2014</u>	<u>2013</u>
Cash	\$ 211,901	\$ 197,067
Receivables	0	0
Capital Assets, Net	<u>156,734</u>	<u>156,604</u>
Total Assets	368,635	353,671
Accounts Payable/Accrued Expenses	7,908	5,674
Accrued Compensated Absences	4,048	4,048
Current Liabilities	<u>0</u>	<u>0</u>
Total Liabilities	<u>\$ 11,956</u>	<u>\$ 9,722</u>
Net position		
Capital Assets	156,734	156,604
Restricted	66,977	58,650
Unrestricted	<u>132,968</u>	<u>128,695</u>
Total Net Position	<u>\$ 356,679</u>	<u>\$ 343,949</u>

Summary of Changes in Net Position

The following is an analysis of the changes in net position for the year ended June 30, 2014

	<u>2014</u>	<u>2013</u>
Revenue		
County & City Government	\$ 274,555	\$ 274,555
Contributions		
Interest Income	3,201	326
Donations	16,759	42,705
Charges for Services	31,420	24,571
Grants	<u>0</u>	<u>0</u>
Total Revenue	325,935	342,157
Library Operations	<u>313,205</u>	<u>340,424</u>
Net Change in Position	12,730	1,733
Net Position, Beginning	<u>343,949</u>	<u>342,216</u>
Net Position, Ending	<u>\$ 356,679</u>	<u>\$ 343,949</u>

Capital Assets

Capital assets are defined by the Library as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. The Library's improvements are capitalized, i.e. depreciated. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. An expanded and detailed presentation of capital assets may be seen in Note 3 of the Notes to Financial Statements.

Budgetary Highlights

During the year, a budget was not adopted by the board. The prior year budget was carried over to the current year. No changes were made to the budget during the year. The most significant differences between estimated expenditures and actual expenditures were as follows:

<u>Expenditure</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Materials and Supplies	\$0	\$18,143	-\$18,143
Wages and Salaries	\$217,374	\$223,960	-\$6,586
Miscellaneous	\$7,662	\$35,960	-\$28,298

This year's overspending was primarily due to several revenue sources not being included in the budget causing expenditures not to be estimated accurately.

Economic Factors

The Library is primarily supported by area local governments providing annual contributions to the Library. This past year, a significant portion of the total revenues were from these local governments: Hawkins County and the Towns of Rogersville, Church Hill, and Surgoinsville, Tennessee. As these funds comprise the majority of the revenues, the Library sets its budget based on the amount of funds appropriated each year by these local governments. There are no significant changes in the local government contributions to the Library in the next fiscal year. However, if these local government contributions were reduced, they would have a significant impact on the operations of the Library.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Library Director of The Hawkins County Library System, 407 East Main Street, Rogersville, TN 37857.

THE HAWKINS COUNTY LIBRARY SYSTEM
STATEMENT OF NET POSITION
June 30, 2014

ASSETS	<u>Governmental Activities</u>
Cash and Equivalents	\$ 144,924
Restricted Cash	66,977
Capital Assets, Net of Accumulated Depreciation	<u>156,734</u>
Total Assets	368,635
LIABILITIES	
Accounts Payable and Other Accrued Liabilities	7,908
Accrued Compensated Absences	4,048
Deferred Grant Revenue	<u>-</u>
Total Liabilities	11,956
NET POSITION	
Net Investment in Capital Assets	156,734
Restricted for Capital Projects	66,977
Unrestricted	<u>132,968</u>
Total Net Position	<u><u>\$ 356,679</u></u>

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

**THE HAWKINS COUNTY LIBRARY SYSTEM
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014**

FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Total Governmental Activities
Governmental Activities:					
Library	\$ 313,205	\$ 31,420	\$ 16,759	\$ -	\$ (265,026)
GENERAL REVENUES					
Local government appropriations					274,555
Interest income					3,201
Total General Revenues					277,756
Change in Net Position					12,730
Net Position - Beginning					343,949
Net Position - Ending					\$ 356,679

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

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

June 30, 2014

	Operating Fund	Contingency/ Grant Fund	Total Governmental Funds
ASSETS			
Cash	\$ 130,715	\$ -	\$ 130,715
Certificate of Deposit	-	66,977	66,977
Petty Cash Checking	14,209	-	14,209
Total Assets	\$ 144,924	\$ 66,977	\$ 211,901
LIABILITIES			
Accounts Payable/Accrued Expenses	\$ 7,908	\$ -	\$ 7,908
Accrued Compensated Absences - Current	4,048	-	4,048
Total Liabilities	11,956	-	11,956
FUND BALANCES			
Nonspendable	-	-	-
Restricted for:			
Contingency/Capital Projects	-	66,977	66,977
Committed			
Assigned		-	-
Unassigned	132,968	-	132,968
Total Fund Balance	132,968	66,977	199,945
Total Liabilities and Fund Balance	\$ 144,924	\$ 66,977	\$ 211,901

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

Fund Balances - Total Governmental Funds	\$ 199,945
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund. Capital assets at year end consist of:

Capital asset cost	1,073,314	
Capital asset accumulated depreciation	(916,580)	156,734

Net position of governmental activities	\$ 356,679
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The accompanying notes to financial statements are an integral part of this statement.

**THE HAWKINS COUNTY LIBRARY SYSTEM
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014**

	<u>Operating Fund</u>	<u>Contingency/ Grant Fund</u>	<u>Total Governmental Funds</u>
REVENUE			
Town of Rogersville	\$ 112,000	\$ -	\$ 112,000
Hawkins County	94,000	-	94,000
Town of Church Hill	50,055	-	50,055
Town of Surgoinsville	18,500	-	18,500
Charges for Services	31,420	-	31,420
Interest Income	169	3,032	3,201
Donations/Other	12,759	-	12,759
Grants	4,000	-	4,000
	<hr/>	<hr/>	<hr/>
Total Revenue	322,903	3,032	325,935
EXPENDITURES			
Wages and Benefits	223,960	-	223,960
Operations and Insurance	21,812	-	21,812
Materials and Supplies	18,143	-	18,143
Automation	4,812	-	4,812
Travel/Dues/Training	1,128	-	1,128
Professional Fees and Bonding	7,520	-	7,520
Miscellaneous	6,138	-	6,138
Capital Outlay	29,822	-	29,822
	<hr/>	<hr/>	<hr/>
Total Expenditures	313,335	-	313,335
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 9,568	\$ 3,032	\$ 12,600
Fund Balance - Beginning	<hr/>	<hr/>	<hr/>
	123,411	63,934	187,345
Fund Balance - Ending	<hr/>	<hr/>	<hr/>
	\$ 132,979	\$ 66,966	\$ 199,945

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

Net Change in Fund Balances -- Total Governmental Funds \$ 12,600

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Current period depreciation expense is \$29,692.

Change in Net Position of Governmental Activities

130

\$ 12,730

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

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hawkins County Library System (Library) serves the citizens of Hawkins County and is governed by a board comprised of seven members on the local board and two members of the Nolichucky Regional Library Board. The Library is a component unit of Hawkins County, Tennessee. The accounting policies of The Library conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The following is a summary of the significant accounting policies.

A. Description of Library's Operations

The Hawkins County Library System (Library) was established to maintain and operate public libraries in Hawkins County, Tennessee. The Library operates under the supervision and control of a Board. All activities over which the Library exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity. The Library has no potential component units which would be included in the reporting entity of The Hawkins County Library System.

B. Basis of Presentation

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for each of the Library's two major governmental funds.

The fund financial statements provide information about the government's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The operating fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The Library's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

The statement of net position presents the financial condition of the governmental activities of the Library at year end. The statement of activities presents comparison between direct expenses and program expenses for each program or function of the Library's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Library, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Library.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements. 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 and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

D. Budgets and Budgetary Accounting

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

The Library Director submits to the Board a proposed operating budget which includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the statements of revenue, expenditures and changes in fund balances. The Library Director budgets for the operating fund each year and for the contingency/grant fund in the years when grants are earned or when expenditures are budgeted.

Budgets are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

The Library does not maintain a formalized encumbrance accounting system.

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

For the year ended June 30, 2014, expenditures exceeded appropriations of the operating fund by \$34,789. It is considered a budgetary violation

E. Cash and Cash Equivalents

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

F. Capital Assets

Capital assets are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year for furniture, equipment, and improvements. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Donated capital assets are recorded at their estimated fair value on the date of donation. The collection of library books and materials are capitalized on an annual basis as one unit cost based on historical cost or estimated historical cost based on the average cost per book. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Furniture and equipment	10 years
Collections – library books and materials	10 years

G. Compensated Absences

It is the policy of the Library not to accrue for vacation since any compensated time off for the regular employees is earned on a fiscal year basis and must be taken by June 30th of each year because no carryover is allowed. However, sick pay can be accumulated up to 100 hours per employee at June 30th which is subject to carryover. This has been accrued at June 30, 2014.

H. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

I. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

J. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Library itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the Library that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing council (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses (expenditures) during the reporting period. Actual results could differ from those estimates.

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – CASH IN BANKS

The Library has no formal policies with respect to deposits and investments; however, it is required to follow procedure allowed by applicable state laws. At June 30, 2014, the Library had complied with applicable state laws as all cash funds were held in local financial institutions in the form of demand deposits, savings accounts or certificates of deposit. Furthermore, the state requires that all deposits with financial institutions be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. Deposits must be covered by the Library's agent in the Library's name, or by the Federal Reserve Bank acting as third party agents. As of June 30, 2014, the total bank balance was covered by FDIC insurance.

NOTE 3 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 186,708	\$ -	\$ -	\$ 186,708
Collections-Library Books	903,458	29,822	46,675	886,605
Subtotal	<u>1,090,166</u>	<u>29,822</u>	<u>46,675</u>	<u>1,073,313</u>
Less: Accumulated Depreciation For:				
Furniture and Equipment	167,197	2,920	0	170,117
Collections-Library Books	766,365	26,772	46,675	746,462
	<u>933,562</u>	<u>29,692</u>	<u>46,675</u>	<u>916,579</u>
Capital Assets - Net of Depreciation	<u>\$ 156,604</u>	<u>\$ 130</u>	<u>\$ -</u>	<u>\$ 156,734</u>

Depreciation was charged to the Library program in the amount of \$29,692. The Library has a policy to remove a minimum of 5% of the books and audiovisuals each year.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

The Library receives a substantial amount of its support from local governments. A significant reduction in the level of support, if this were to occur, may have an effect on the Library's programs and activities.

NOTE 5 – RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Library manages risk through commercial insurance policies designed to minimize exposure. There have been no

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

significant reductions in insurance coverage and there were no settlement amounts which exceeded insurance coverage for the current year or the three prior years.

NOTE 6 – CONTRIBUTED FACILITIES

The Library occupies, without charge, certain premises located in government owned buildings. The fair rental value of the premises is not reported as revenue nor has the expense been shown in the financial statements, as fair market value was not determinable.

NOTE 7 – GRANT ACTIVITY

In this fiscal year, the Library was awarded a grant in the amount of \$4,000.

NOTE 8 – APPROPRIATIONS FROM RELATED GOVERNMENTS

The Library is funded by contributions from Hawkins County and the municipalities of Rogersville, Church Hill, and Surgoinsville. The Library Board is managed by seven members on the local board and two members of the Nolichucky Regional Library Board. Of the seven local board members, three are appointed by the Hawkins County Commission, and the municipalities of Rogersville, Church Hill, and Surgoinsville appoint one member each while one member at large is jointly appointed.

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

Hawkins County	\$ 94,000
Rogersville	112,000
Church Hill	50,055
Surgoinsville	<u>18,500</u>
	<u>\$ 274,555</u>

NOTE 9 – SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated subsequent events through September 25, 2014, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
OPERATING FUND
For the Year Ended
June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Town of Rogersville	\$ 112,000	\$ 112,000	\$ 112,000	\$ -
Hawkins County	94,000	94,000	94,000	-
Town of Church Hill	50,055	50,055	50,055	-
Town of Surgoinsville	18,500	18,500	18,500	-
Charges for Services	-	-	31,420	31,420
Interest Income	-	-	169	169
Donations/Other	-	-	12,759	12,759
Grants	-	-	4,000	4,000
Total Revenue	<u>\$ 274,555</u>	<u>\$ 274,555</u>	<u>\$ 322,903</u>	<u>\$ 48,348</u>
EXPENDITURES				
Wages and Benefits	\$ 217,374	\$ 217,374	\$ 223,960	\$ (6,586)
Operations and Insurance	20,310	20,310	21,812	(1,502)
Material and Supplies	-	-	18,143	(18,143)
Automation	24,500	24,500	4,812	19,688
Travel/Dues/Training	1,200	1,200	1,128	72
Professional Fees and Bonding	7,500	7,500	7,520	(20)
Miscellaneous	7,662	7,662	35,960	(28,298)
Total Expenditures	<u>278,546</u>	<u>278,546</u>	<u>313,335</u>	<u>(34,789)</u>
Revenues Over (Under) Expenditures	\$ (3,991)	\$ (3,991)	\$ 9,568	\$ 13,559
Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Change in Fund Balance	(3,991)	(3,991)	9,568	13,559
Fund Balance - Beginning	<u>107,820</u>	<u>107,820</u>	<u>107,820</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ 103,829</u></u>	<u><u>\$ 103,829</u></u>	<u><u>\$ 117,388</u></u>	<u><u>\$ 13,559</u></u>

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

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
CONTINGENCY/GRANT FUND
 For the year ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Interest Income	-	-	3,032	(3,032)
Donations	-	-	-	-
Grants	-	-	-	-
Total Revenues	\$ -	\$ -	\$ 3,032	\$ 3,032
EXPENDITURES				
Miscellaneous	-	-	-	-
Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 3,032	\$ 3,032
Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	-	-	3,032	3,032
Fund Balance - Beginning	63,934	63,934	63,934	-
Fund Balance - Ending	\$ 63,934	\$ 63,934	\$ 66,966	\$ 3,032

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

DAVID M. ELLIS
Certified Public Accountant

*Member, American Institute of
Certified Public Accountants*

*Member, Tennessee Society of
Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To The Library Board
Rogersville, Tennessee

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of The Hawkins County Library System, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise The Hawkins County Library System's basic financial statements, and have issued my report thereon dated September 25, 2014.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described in the accompanying schedule of findings and recommendations, as item 14-02, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying schedule of findings and recommendations, as items 14-01 and 13-02 to be significant deficiencies.

Leighton House • 132 Depot Street West • Greeneville, Tennessee 37743
(423) 787-0855 • Fax (423) 639-0124

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Hawkins County Library System's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and recommendations as item 12-01.

Library's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



David M. Ellis, CPA
Greeneville, Tennessee
September 25, 2014

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2014

Financial Statement Findings

Current Year Findings:

14-01 Lack of Approval of Annual Budget

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

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

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

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

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

Management's Comments: Management concurs.

14-02 Segregation of Duties

Condition: Inadequate separation of duties.

Criteria: The Internal Control and Compliance Manual for Tennessee Utility Districts Title 5 Chapter 10 recommends that there be an adequate separation of duties in all aspects of cash handling, record keeping and deposits.

Cause: Small number of employees available to share the duties makes it difficult to have an adequate segregation of the custodial, authorization and record keeping functions.

Effect: Without an adequate separation of duties, it becomes more likely that fraud could occur and not be detected in a timely manner.

Recommendation: Some of the duties should be assigned to other part time personnel.

Management's Comments: Management agrees with the finding.

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2014

Prior and Current Year Findings:

12-01 Deposit not made within three days

Condition: On several occasions, it was noted the Library did not deposit fines or miscellaneous fees to the bank within three days of collection.

Criteria: Tennessee Code Annotated 5-8-207 requires:

“Every county official handling public funds shall be required to maintain an official bank account in a bank or banks within this state, and shall, within three days after the receipt by such county official of any public funds, deposit the funds to the credit of such county official’s official bank account, or bank accounts.”

Effect: Funds could be misplaced when not deposited timely.

Recommendation: The Library should deposit funds received as soon as practical but no later than three days after receipt.

Management’s Comments: The amounts involved are small. However, efforts will be made to insure all funds are deposited within three days of receipt.

13-02 Two Authorized Signatures Are Not Always Used

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

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

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

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

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

Management’s comments: Management agrees with the finding.

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2014

Prior Year Finding:

13-01 Invoices are not properly cancelled

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

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

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

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

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

Management's Comments: Management agrees with the finding.

Update to Prior Year Findings and Recommendations from June 30, 2013:

Update: - Findings 12-01 and 13-02 continue to apply.

Finding 13-01 has been addressed and corrected and no longer applies.