MORRISTOWN-HAMBLEN LIBRARY

FINANCIAL STATEMENTS

Year Ended June 30, 2015

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

Jimmy Hammock, Chairman
Morristown, Tennessee

Carol Reams, Vice-Chairman
Morristown, Tennessee

Ann Cranford, Treasurer
Morristown, Tennessee

Jyothi Ramaprasad, Secretary
Morristown, Tennessee

Nancy Burnett
Talbott, Tennessee

Bill Brittain
Morristown, Tennessee

Ronald C. Peterson
Morristown, Tennessee

Elizabeth Campbell
Morristown, Tennessee

Gary Matthews
Talbott, Tennessee

Shelly Shropshire, Business Manager/Interim Director
Morristown, Tennessee

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
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, 2015, 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 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 general fund of Morristown-Hamblen Library as of June 30, 2015, 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 16, 2015, 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 16, 2015

MORRISTOWN-HAMBLEN LIBRARY
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2015

	General Fund	Adjustments (Note F)	Statement of Net Position
Assets			
Cash, primarily interest bearing	$ 79,998	$ -	$ 79,998
Unconditional promises to give	3,972	-	3,972
Appropriation receivable	1,682	-	1,682
Prepaid expenses	11,101	-	11,101
Land	-	185,000	185,000
Other capital assets, net of accumulated depreciation	-	1,515,348	1,515,348
Total Assets	$ 96,753	$ 1,700,348	$ 1,797,101
Liabilities			
Accounts payable	$ 9,352	$ -	$ 9,352
Wages and payroll tax payable	6,950	-	6,950
Capital lease payable	-	2,718	2,718
Total Liabilities	16,302	2,718	19,020
Fund Balance/Net Position			
Fund Balance			
Nonspendable	11,101	(11,101)	-
Restricted	14,142	(14,142)	-
Unassigned	55,208	(55,208)	-
Total Fund Balance	80,451	(80,451)	-
Net Position			
Net investment in capital assets	-	1,697,630	1,697,630
Restricted, expendable	-	14,142	14,142
Unrestricted	-	66,309	66,309
Total Net Position	-	1,778,081	1,778,081
Total Liabilities and Fund Balance/Net Position	$ 96,753	$ 1,700,348	$ 1,797,101

See accompanying notes to financial statements.

MORRISTOWN-HAMBLEN LIBRARY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2015

	General Fund	Adjustments (Note F)	Statement of Activities
Revenues			
Local government appropriations	$ 521,000	$ -	$ 521,000
State and other grants	5,383	-	5,383
Fines and charges	42,340	-	42,340
Gifts and memorials	19,420	-	19,420
In-kind donations	6,343	-	6,343
Interest	222	-	222
Capitalized lease	3,795	(3,795)	-
Total Revenues	598,503	(3,795)	594,708
Expenditures			
Library services			
Labor and benefits	385,092	-	385,092
Periodicals	3,890	-	3,890
Depreciation	-	158,184	158,184
Utilities	31,294	-	31,294
Repairs and maintenance	10,615	-	10,615
Supplies	24,449	-	24,449
Insurance	18,294	-	18,294
Telephone and internet	3,597	-	3,597
Computer upgrade and maintenance	9,154	-	9,154
Professional services	6,457	-	6,457
Travel, training and dues	1,806	-	1,806
Miscellaneous	3,749	-	3,749
Debt service			
Principal payments on capital lease	1,077	(1,077)	-
Interest payments on capital lease	120	-	120
Capital outlay			
Building and equipment	29,648	(29,648)	-
Circulation materials	60,517	(60,517)	-
Total Expenditures	589,759	66,942	656,701
Excess (Deficiency) of Revenues Over Expenditures/Net Change in Fund Balance	8,744	(8,744)	-
Change in Net Position	-	(61,993)	(61,993)
Fund Balance/Net Position			
Beginning of Year	71,707	1,768,367	1,840,074
End of Year	$ 80,451	$ 1,697,630	$ 1,778,081

See accompanying notes to financial statements.

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 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.

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 the date of the auditor's report, the date the financial statements were available to be issued.

NOTE B - CAPITAL ASSETS

Changes in fixed assets for year ended June 30, 2015, were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	$ 185,000	$ -	$ -	$ 185,000
Capital assets being depreciated:				
Building and improvements	1,949,918	14,000	-	1,963,918
Circulation materials	1,064,942	60,517	92,452	1,033,007
Furniture and equipment	408,908	15,648	-	424,556
Total capital assets being depreciated	3,423,768	90,165	92,452	3,421,481
Less accumulated depreciation for:				
Buildings and improvements	685,695	70,541	-	756,236
Circulation materials	862,974	62,574	92,452	833,096
Furniture and equipment	291,732	25,069	-	316,801
Total accumulated depreciation	1,840,401	158,184	92,452	1,906,133
Total capital assets being depreciated, net	1,583,367	(68,019)	-	1,515,348
Capital assets, net	$ 1,768,367	$ (68,019)	$ -	$ 1,700,348

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 $14,142 at June 30, 2015, consist of donor restricted contributions not yet spent for purpose.

NOTE E - NONSPENDABLE FUND BALANCE

The nonspendable fund balance of $11,101 at June 30, 2015, consists 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.

When debt is incurred, proceeds are reported as financing revenue in governmental funds. In the statement of net position, however, debt incurred increases liabilities and does not affect the statement of activities.

Nonspendable fund balance	$ 11,101
Restricted fund balance	14,142
Unassigned fund balance	55,208
Cost of capital assets	3,606,481
Accumulated depreciation	(1,906,133)
Capital lease payable	(2,718)
Total Net Position	$ 1,778,081

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.

When capital assets are acquired through financing activities, debt proceeds are reported as financing revenue in governmental funds. In government-wide statements, however, debt increases liabilities in the statement of net assets and does not affect the statement of activities. Likewise, repayment of principal is reported as an expenditure in governmental funds and a decrease in liabilities in the statement of net assets.

Excess (deficiency) of revenues over expenditures	$ 8,744
Capital outlay:	
Building and equipment	29,648
Circulation materials	60,517
Depreciation expense	(158,184)
Capitalized lease	(3,795)
Principal payments	1,077
Change in net position	$ (61,993)

NOTE G - CAPITAL LEASE OBLIGATION

The Library leases a copier under a capital lease agreement. The economic substance of the lease is that the Library is financing the acquisition of the asset through the lease, and, accordingly, it is recorded in the Library's assets and liabilities. The cost of the copier in the amount of $3,795 is included in fixed assets.

Interest expense relating to the lease payable, for the year ending June 30, 2015, is $120, none of which has been capitalized.

Amortization of the asset held under the capital lease is included with depreciation expense.

The following is a schedule by years of future minimum lease payments required under the lease as of June 30, 2015:

Year Ending June 30,	
2016	$ 2,223
2017	684
Total minimum lease payments	2,907
Less amount representing interest	(189)
Present value of minimum lease payments	$ 2,718

NOTE H - IN-KIND DONATIONS

In-kind donations of $6,343 during the year ending June 30, 2015, consist of volunteer labor to build two HVAC units for the Library.

NOTE I - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give in the amount of $3,972 at June 30, 2015, consist of promised contributions for the purchase of computers and related equipment. All promises are due in less than 60 days after year end. No allowance for uncollectible promises was considered necessary at June 30, 2015.

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
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, 2015, 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 16, 2015.

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. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Morristown-Hamblen's 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 Morristown-Hamblen 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 16, 2015

MORRISTOWN-HAMBLEN LIBRARY
Schedule of Findings
Year Ended June 30, 2015

Prior Year

2014.1 Receipts Held for More Than Three Business Days

Condition: Although all funds were being receipted, they were 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.

Current year update: This issue was addressed and corrected during the current year.