

**THE HAWKINS COUNTY LIBRARY SYSTEM
(A Component Unit of Hawkins County)
ROGERSVILLE, TENNESSEE**

**Financial Statements
June 30, 2015**

THE HAWKINS COUNTY LIBRARY SYSTEM
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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, (a component unit of Hawkins County), 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

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, 2015, 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 and Management and the Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – Operating Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of Board Members and Management and the Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – Operating 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 January 4, 2016, 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.



David M. Ellis, CPA
Greeneville, TN
January 4, 2016

**THE HAWKINS COUNTY LIBRARY SYSTEM
BOARD MEMBERS AND MANAGEMENT
June 30, 2015**

James Boehms
Mary Ann White
Barbara Combs
Gerri Pierce
Gaylon Williams
Janie Fairchild
Ridge Charles
Ken Culbertson
Melissa Peebles
Shannon Evans
Dana Parker
Melissa Montgomery

Chairman
Vice Chair
Treasurer
Secretary
Board
Board
Board
Board
Board
Board
Interim Director/ Manager-Church Hill
Interim Director/ 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, 2015. 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 of the Library exceeded its liabilities at the close of the most recent fiscal year by \$300,323 (net position). Of this amount, \$131,171 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 \$198,370, a decrease of \$1,575 in comparison with the prior year. Approximately 66% of this amount (\$131,171) 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 \$131,171.

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 exceeded liabilities by \$300,323 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, 2015:

	<u>2015</u>	<u>2014</u>
Cash	\$ 203,387	\$ 211,901
Capital Assets, Net	<u>101,953</u>	<u>156,734</u>
Total Assets	305,340	368,635
Accrued Expenses	5,017	7,908
Accrued Compensated Absences	<u>0</u>	<u>4,048</u>
Total Liabilities	<u>\$ 5,017</u>	<u>\$ 11,956</u>
Net position		
Capital Assets	101,953	156,734
Restricted	67,199	66,977
Unrestricted	<u>131,171</u>	<u>132,968</u>
Total Net Position	<u>\$ 300,323</u>	<u>\$ 356,679</u>

Summary of Changes in Net Position

The following is an analysis of the changes in net position for the year ended June 30, 2015

	<u>2015</u>	<u>2014</u>
Revenue		
County & City Government	\$ 274,555	\$ 274,555
Contributions		
Interest Income	135	3,201
Donations	5,834	16,759
Charges for Services	21,601	31,420
Grants	<u>3,579</u>	<u>0</u>
Total Revenue	305,704	325,935
Library Operations	<u>362,060</u>	<u>313,205</u>
Net Change in Position	(56,356)	12,730
Net Position, Beginning	<u>356,679</u>	<u>343,949</u>
Net Position, Ending	<u>\$ 300,323</u>	<u>\$ 356,679</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.

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, 2015

ASSETS	<u>Governmental Activities</u>
Current Assets:	
Cash in banks	\$ 136,188
Cash in banks - restricted	67,199
Total Current Assets	<u>203,387</u>
 Noncurrent assets:	
Capital assets:	
Books and collections	864,640
Furniture and equipment	186,708
Less: Provision for depreciation	<u>(949,395)</u>
Total Noncurrent Assets	<u>101,953</u>
Total Assets	305,340
 LIABILITIES	
Accrued compensated absences due within one year	<u>5,017</u>
Total Liabilities	5,017
 NET POSITION	
Investment in capital assets	101,953
Restricted for capital projects	67,199
Unrestricted	<u>131,171</u>
Total Net Position	<u><u>\$ 300,323</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, 2015**

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position Total Governmental Activities</u>
FUNCTIONS/PROGRAMS					
Governmental Activities:					
Library	\$ 362,060	\$ 21,601	\$ 9,413	\$ -	\$ (331,046)
GENERAL REVENUES					
Local government appropriations					274,555
Interest income					135
					<u>274,690</u>
					(56,356)
					<u>356,679</u>
					<u>\$ 300,323</u>

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

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

June 30, 2015

	<u>Operating Fund</u>	<u>Contingency/ Grant Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 122,472	\$ -	\$ 122,472
Certificate of Deposit	-	67,199	67,199
Petty Cash Checking	<u>13,716</u>	<u>-</u>	<u>13,716</u>
Total Assets	<u>\$ 136,188</u>	<u>\$ 67,199</u>	<u>\$ 203,387</u>
LIABILITIES			
Accounts Payable/Accrued Expenses	\$ -	\$ -	\$ -
Accrued Compensated Absences - Current	<u>5,017</u>	<u>-</u>	<u>5,017</u>
Total Liabilities	5,017	-	5,017
FUND BALANCES			
Nonspendable	-	-	-
Restricted for:			
Contingency/Capital Projects	-	67,199	67,199
Committed			
Assigned	-	-	-
Unassigned	<u>131,171</u>	<u>-</u>	<u>131,171</u>
Total Fund Balance	<u>131,171</u>	<u>67,199</u>	<u>198,370</u>
Total Liabilities and Fund Balance	<u>\$ 136,188</u>	<u>\$ 67,199</u>	<u>\$ 203,387</u>

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

Fund Balances - Total Governmental Funds		\$ 198,370
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	1,051,348	
Capital asset accumulated depreciation	<u>(949,395)</u>	<u>101,953</u>
Net position of governmental activities		<u>\$ 300,323</u>

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, 2015**

	Operating Fund	Contingency/ Grant Fund	Total Governmental Funds
REVENUE			
Town of Rogersville	\$ 112,000	\$ -	\$ 112,000
Hawkins County	94,000	-	94,000
Town of Church Hill	50,055	-	50,055
Town of Surgoinville	18,500	-	18,500
Charges for Services	21,601	-	21,601
Interest Income	135	-	135
Donations/Other	5,834	-	5,834
Grants	3,579	-	3,579
Total Revenue	305,704	-	305,704
EXPENDITURES			
Wages and Benefits	219,111	-	219,111
Utilities and Insurance	13,167	-	13,167
Supplies	18,981	-	18,981
Books & Materials	31,231	-	31,231
Maintenance	5,443	-	5,443
Dues and Training	1,364	-	1,364
Professional Fees	7,400	-	7,400
Miscellaneous	6,556	-	6,556
State Grant Expense	4,026	-	4,026
Total Expenditures	307,279	-	307,279
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (1,575)	\$ -	\$ (1,575)
Fund Balance, July 1, 2014	132,746	67,199	199,945
Fund Balance, June 30, 2015	\$ 131,171	\$ 67,199	\$ 198,370

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

Net change in fund balances -- total governmental funds	\$ (1,575)
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 \$32,815.	(1,584)
Cost of books previously capitalized but written off as useless	(53,197)
Change in net position of governmental activities	\$ (56,356)

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

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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's governing body is appointed by the County Commission. The Library is a discretely presented component unit of Hawkins County, Tennessee because of the significance of the operational or financial relationship with the county. 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.

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

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

paid by the recipient of the goods or services offered by the program and grants 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. Fund Accounting

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary. For the year ending June 30, 2015, the Library had only governmental funds.

Governmental Funds

Governmental funds are those through which all governmental functions of the Library are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund's assets and liabilities is reported as fund balance. The following are the Library's major governmental funds:

- Library Operating Fund – This fund is the general operating fund of the Library. It is used to account for all financial resources, except those required to be accounted for in another fund.
- Library Contingency/Grant Fund – This fund is used to accumulate funds set aside by the Library Board to fund future items for capital projects and various restricted grants received.

D. 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

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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.

E. 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.

For the year ended June 30, 2015, appropriations exceeded expenditures of the operating fund by \$23,763.

F. 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:

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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, 2015.

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.

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 HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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.

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, 2015, 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, 2015, the total bank balance was covered by FDIC insurance.

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning			Ending
Capital Assets Being Depreciated:	Balance	Increases	Decreases	Balance
Furniture and Equipment	\$ 186,708	\$ -	\$ -	\$ 186,708
Collections-Library Books	886,605	31,231	53,196	864,640
Subtotal	<u>1,073,313</u>	<u>31,231</u>	<u>53,196</u>	<u>1,051,348</u>
Less: Accumulated Depreciation For:				
Furniture and Equipment	170,117	2,921	0	173,038
Collections-Library Books	746,462	29,895	0	776,357
	<u>916,579</u>	<u>32,816</u>	<u>0</u>	<u>949,395</u>
Capital Assets - Net of Depreciation	<u>\$ 156,734</u>	<u>\$ (1,585)</u>	<u>\$ 53,196</u>	<u>\$ 101,953</u>

Depreciation was charged to the Library program in the amount of \$32,816. 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 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 \$3,579.

THE HAWKINS COUNTY LIBRARY SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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 January 4, 2016, the date the financial statements were available to be issued.

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, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</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	30,305	30,305	21,601	(8,704)
Interest Income	-	-	135	135
Donations/Other	23,768	23,768	5,834	(17,934)
Grants	2,013	2,013	3,579	1,566
Total Revenue	\$ 330,641	\$ 330,641	\$ 305,704	\$ (24,937)
EXPENDITURES				
Wages and Benefits	\$ 222,741	\$ 222,741	\$ 219,111	\$ 3,630
Operations and Insurance	24,319	24,319	13,167	11,152
Material and Supplies	27,781	27,781	18,981	8,800
Automation	-	-	5,443	(5,443)
Travel/Dues/Training	1,325	1,325	1,364	(39)
Professional Fees and Bonding	7,000	7,000	7,400	(400)
Capital Outlay	28,745	28,745	31,231	(2,486)
Miscellaneous	19,131	19,131	10,582	8,549
Total Expenditures	331,042	331,042	307,279	23,763
Revenues Over (Under) Expenditures	\$ (401)	\$ (401)	\$ (1,575)	\$ (1,174)
Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	(401)	(401)	(1,575)	(1,174)
Fund Balance - Beginning	132,746	132,746	132,746	13,559
Fund Balance - Ending	<u>\$ 132,345</u>	<u>\$ (401)</u>	<u>\$ 131,171</u>	<u>\$ 12,385</u>

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, (a component unit of Hawkins County), as of and for the year ended June 30, 2015, 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 January 4, 2016.

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 a deficiency in internal control that I consider to be a material weakness.

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 2014-02, 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.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as items 2015-01 and 2012-01.

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
January 4, 2016

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
June 30, 2015

Financial Statement Findings

2015-01 Funds Received Not Properly Budgeted or Accounted For:

Condition: Library does not properly account for copier and printer fees that are received from patrons.

Criteria: Good internal control procedures and generally accepted accounting practices require that any funds received, from whatever source, be identified, timely deposited in the bank, and be accounted for in the budget. Failure to perform these procedures increases the risk that errors or fraud may occur but not be detected on a timely basis.

Cause: Money received from patrons for copier and printer fees are deposited in the library's bank account and paid to an outside entity that purchased the copier and printer. These transactions, while the responsibility of the library, are not budgeted or reported. The library is managing funds for which there are no internal controls.

Effect: No internal controls or procedures are in place over these funds to prevent the occurrence of fraud or misuse.

Recommendation: The library should record all proceeds from the copier and printer that are remitted by patrons on numbered receipts and record as revenue in the library funds. Subsequent checks written to the outside party for the equipment use should be recorded as expense and be reflected in the library's yearly budget.

Management's Comments: Management concurs and are reviewing procedures to ensure that this issue is corrected.

2014-02 Segregation of Duties

Condition: Inadequate separation of duties.

Criteria: Internal controls should be in place to provide an adequate segregation of duties among accounting functions.

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.

**THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

June 30, 2015

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

Recommendation: Due to the size of the Library and the cost of hiring additional staff, and the Library does not have the need to hire additional employees, no change is recommended; however, the Board of Directors should continue to take an active part in reviewing all accounting functions.

Management's Comments: Management agrees with the finding.

2012-01 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 State code 6-56-111 (a) states: requires:

“Every municipal official handling public funds shall be required to, as soon as practical, but no later than three (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality'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.

THE HAWKINS COUNTY LIBRARY SYSTEM
SCHEDULE OF PRIOR YEAR FINDINGS
June 30, 2015

Finding Number	Finding Title	Status
2014-01	Lack of Approval of Annual Budget	Corrected
2014-02	Segregation of Duties	Still applies
2012-01	Deposit not Made Within Three Days	Still applies
2013-02	Two Authorized Signatures Are Not Always Used	Corrected
2013-01	Invoices are not properly cancelled	Corrected