

**Franklin County Library
Winchester, Tennessee**

Audit Report

June 30, 2009

Franklin County Library
Audit Report
June 30, 2009

	<u>Contents</u>	<u>Page</u>
Introductory Section		a
Independent Auditors' Report		1-2
Combining Governmental Funds Balance Sheet		3
Combining Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance		4
Notes to Financial Statements		5-8
Required Supplemental Information Statement of Revenues and Expenditures-Budget and Actual		9
Other Supplemental Information Schedule of Expenditures of Federal Awards		10
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>		11-14

Franklin County Library
(A Part of the Primary Government of Franklin County, Tennessee)
Introductory Section
June 30, 2009

Roster of Board Members and Management Officials

Board Members

Julie Schaefer, Chairman
Winchester, TN

T. C. Simmons III, Vice Chairman
Winchester, TN

Suzanne McDowell, Treasurer
Winchester, TN

Pam Brown
Winchester, TN

Edward Crenshaw
Winchester, TN

Michael D. Hall
Estill Springs, TN

Pat Kirby
Sewanee, TN

Management Official

Diane Krauth
Winchester, TN

BEAN, RHOTON & KELLEY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

300 SOUTH JEFFERSON STREET, SUITE A, WINCHESTER, TN 37398

Office: 931-967-0611

Fax: 931-967-4784

www.brkcpa.com

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Independent Auditors' Report

To the Board of Directors
Franklin County Library
Winchester, Tennessee

We have audited the accompanying financial statements of the governmental fund, and each major fund of the Franklin County Library, (a part of the primary government of Franklin County, Tennessee,) as of and for the year ended June 30, 2009, which collectively comprise the Library's financial statements as listed in the table of contents. These financial statements are the responsibility of the Franklin County Library. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Franklin County Library and do not purport to, and do not, present fairly the financial position of Franklin County, Tennessee, as of June 30, 2009, and the changes in its financial position for the year then ended in conformity with accounting principals generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental fund and each major fund of the Franklin County Library as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

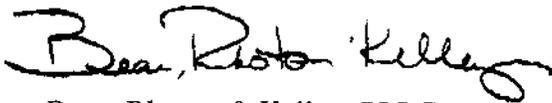
The Franklin County Library has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2009, on our consideration of Franklin County 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

the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison schedule listed in the table of contents is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Library's financial statements. The introductory section and other supplemental information as listed in table of contents are presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section and other supplemental information have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.



Bean, Rhoton & Kelley, PLLC
December 3, 2009

Franklin County Library
(A Part of the Primary Government of Franklin County, Tennessee)
Combining Governmental Funds Balance Sheet
June 30, 2009

	<u>Franklin County Library</u>	<u>Friends of Franklin Co. Library</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash investments	\$ 16,609.98	\$ 0.00	\$ 16,609.98
Certificate of deposit	3,758.14	0.00	3,758.14
Total current assets	<u>20,368.12</u>	<u>0.00</u>	<u>20,368.12</u>
Total assets	<u><u>20,368.12</u></u>	<u><u>0.00</u></u>	<u><u>20,368.12</u></u>
<u>LIABILITIES</u>			
Accounts payable	4,301.70	0.00	4,301.70
Payroll liabilities	436.63	0.00	436.63
Total liabilities	<u>4,738.33</u>	<u>0.00</u>	<u>4,738.33</u>
<u>NET ASSETS</u>			
Unrestricted	<u>15,629.79</u>	<u>0.00</u>	<u>15,629.79</u>
Total net assets	<u><u>\$ 15,629.79</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 15,629.79</u></u>

Notes to financial statements are an integral part of the financial statements.

Franklin County Library
(A Part of the Primary Government of Franklin County, Tennessee)
Combining Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balance
For the year ended June 30, 2009

	<u>Franklin County Library</u>	<u>Friends of Franklin Co. Library</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Contributions from County	\$ 37,944.00	\$ 0.00	\$ 37,944.00
Contributions from Winchester	28,500.00	0.00	28,500.00
Other city contributions	700.00	0.00	700.00
Technology grants	1,500.00	0.00	1,500.00
Memorials and gifts	4,061.94	0.00	4,061.94
Fines, fees and miscellaneous	20,445.73	0.00	20,445.73
Interest	250.25	0.00	250.25
Total revenues	<u>93,401.92</u>	<u>0.00</u>	<u>93,401.92</u>
<u>EXPENDITURES</u>			
Salaries, wages and benefits	32,309.62	0.00	32,309.62
Books and periodicals (See Note 2)	24,940.33	0.00	24,940.33
Utilities	22,853.49	0.00	22,853.49
Supplies	4,933.31	0.00	4,933.31
Maintenance and repairs	9,451.48	0.00	9,451.48
Equipment rental and service	3,753.63	0.00	3,753.63
Miscellaneous expenses	3,741.58	0.00	3,741.58
Professional services	4,491.25	0.00	4,491.25
Total expenditures	<u>106,474.69</u>	<u>0.00</u>	<u>106,474.69</u>
Deficit of revenues over expenditures	<u>(13,072.77)</u>	<u>0.00</u>	<u>(13,072.77)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers out (See Note 7)	0.00	19,706.45	19,706.45
Total other financing sources and uses	<u>0.00</u>	<u>19,706.45</u>	<u>19,706.45</u>
Net change in fund balance	<u>(13,072.77)</u>	<u>(19,706.45)</u>	<u>(32,779.22)</u>
Fund balance - beginning of year	<u>28,702.56</u>	<u>19,706.45</u>	<u>48,409.01</u>
Fund balance - end of year	<u>\$ 15,629.79</u>	<u>\$ 0.00</u>	<u>\$ 15,629.79</u>

Notes to financial statements are an integral part of the financial statements.

Franklin County Library
(A Part of the Primary Government of Franklin County, Tennessee)
Notes to Financial Statements
June 30, 2009

(1) REPORTING ENTITY

The Franklin County Library is responsible for providing free library service to residents of Franklin County. The Library is a part of the primary government of Franklin County, Tennessee. This board does not have separate legal standing from the primary government of Franklin County, Tennessee. The Board of Directors of the Library consists of seven members with three year terms, each approved by the Franklin County Board of Commissioners. The Library's activities are dependent upon the County's continuing funding.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Library accounts for its financial activities in a governmental fund. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance.

Operations of the Library are separated as follows:

General Fund – The General 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.

Friends of the Library Fund – The Friends of the Library Fund is used for projects not typically funded through the normal course of operations.

Unrestricted funds have only general external restrictions which limit the manner they may be used in operating the Library.

Restricted funds are limited in their use by outside parties. General and capital project funds restricted by outside parties for particular operating purposes or for capital project acquisitions are deemed to be earned and reported as revenues of the general fund or as additions to capital project funds, respectively, when they are received by the Library.

B. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting related to the timing of the measurement made, regardless of the measurement focus applied.

Franklin County Library
(A Part of the Primary Government of Franklin County, Tennessee)
Notes to Financial Statements
June 30, 2009
(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. Measurement Focus/Basis of Accounting - continued

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of all governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual are interest income and grant revenues. All other governmental fund revenues are recognized when received.

C. Investments

The Library's policy related to deposits and investments requires the financial institution to collateralize deposits over \$250,000.00 by pledging securities individually or the financial institution being a member of the State of Tennessee Bank Collateral Pool during the time period of the deposit.

The Library's deposits at year-end were entirely covered by federal depository insurance or by collateral held by the Library's custodial banks in the Library's name. The carrying amount of total cash deposits at June 30, 2009, is \$20,368.12.

D. Capital Assets and Depreciation

Capital assets are reported in the financial statements of the general fund as expenses/expenditures. All qualifying capitalizable assets are included in the financial statements of Franklin County, Tennessee (the primary government), and therefore not capitalized on the financial statements of the Library.

Franklin County Library
(A Part of the Primary Government of Franklin County, Tennessee)
Notes to Financial Statements
June 30, 2009
(Continued)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

E. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the fund.

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

G. Contributed Facilities

All real property and capital improvements currently in use are assets of Franklin County, Tennessee. Because the rental value of these facilities is not readily determinable, no revenue or related expense has been recorded for this donation.

H. Franklin County Library Funds

The financial statements present only the Franklin County Library as of June 30, 2009. These financial statements are in no way intended to represent the government wide financial position of Franklin County, Tennessee for the year then ended in conformity with accounting principles generally accepted in the United States of America.

I. Budgets and Budgetary Accounting

The Franklin County Library is a special revenue fund of Franklin County. The County Commission of Franklin County is required by Section 5-9-401, *Tennessee Code Annotated*, to appropriate funds for the library. Revenues from City and County allocations are classified as appropriated and all other sources of funds are classified as unappropriated funds. The Library prepares a budget for both appropriated and unappropriated funds.

(3) COMMITMENTS AND CONTINGENCIES

During the year ended June 30, 2009, the Library received \$28,500.00 from the City of Winchester and \$37,944.00 from Franklin County, Tennessee. A significant reduction in the level of this support, if this were to occur, may have an effect on the Library's programs and activities.

Franklin County Library
(A Part of the Primary Government of Franklin County, Tennessee)
Notes to Financial Statements
June 30, 2009
(Continued)

(4) EXPOSURE

The Library is under the County's coverage for the risks of losses to which it is exposed. These risks include general liability and property and casualty. Settlement claims have not exceeded coverage in the past three years, and there are currently no lawsuits.

(5) BUDGET VARIANCES

The Library's actual expenditures exceeded the amount appropriated. This practice is contrary to state statutes, which require all expenditures to be authorized by the governing body.

(6) SUBSEQUENT EVENTS

Beginning July, 1 2009 the Library no longer will receive contribution revenue from the County. Instead, expenditures will be made under the Franklin County General Fund. At the date of the audit report it is unclear if an audit will be required in future years.

(7) TRANSFER OUT - FRIENDS OF THE FRANKLIN COUNTY LIBRARY

During the year ended June 30, 2009, the Friends of the Franklin County Library changed their structure to be separate from the Franklin County Library. A transfer of the assets controlled by the Library was approved on March 11, 2009.

Franklin County Library
(A Part of the Primary Government of Franklin County, Tennessee)
Statement of Revenues and Expenditures -
Budget and Actual - Cash Basis
For The Year Ended June 30, 2009

Revenues	2009		Variance- Favorable (Unfavorable)
	Budget	Actual	
Allocation from:			
Franklin County	\$ 37,951.00	\$ 37,944.00	\$ (7.00)
City of Winchester	28,500.00	28,500.00	0.00
Other city contributions	700.00	700.00	0.00
Other receipts	19,000.00	26,257.92	7,257.92
Total Revenues	<u>86,151.00</u>	<u>93,401.92</u>	<u>7,250.92</u>
Expenditures			
Salaries and wages	30,000.00	32,309.62	(2,309.62)
Books and periodicals	26,100.00	24,940.33	1,159.67
Utilities	19,500.00	22,853.49	(3,353.49)
Supplies	3,000.00	4,933.31	(1,933.31)
Maintenance and repairs	9,000.00	9,451.48	(451.48)
Equipment rental and service	3,000.00	3,753.63	(753.63)
Miscellaneous expenses	3,150.00	3,741.58	(591.58)
Professional services	4,500.00	4,491.25	8.75
Total Expenditures	<u>98,250.00</u>	<u>106,474.69</u>	<u>(8,224.69)</u>
Excess of Revenues Over (Under) Expenditures	<u>(12,099.00)</u>	<u>(13,072.77)</u>	<u>973.77</u>

Notes to financial statements are an integral part of the financial statements.

**Franklin County Library
(A Part of the Primary Government of Franklin County, Tennessee)
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009**

<u>Federal Grantor/ Pass - Through Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning (Accrued) Deferred</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) Deferred</u>
Tennessee State Library And Archives	45.310	Z-09-217824-00	\$ 0.00	\$ 1,500.00	\$ 0.00	\$ 1,500.00
Total Federal Awards			<u>\$ 0.00</u>	<u>\$ 1,500.00</u>	<u>\$ 0.00</u>	<u>\$ 1,500.00</u>

Basis of Presentation:

Note 1: The accompanying Schedule of Expenditures of Federal Awards summarized the expenditures of Franklin County Library under programs of the federal government for the year ended June 30, 2009. The schedule is presented using the modified accrual basis of accounting.

BEAN, RHOTON & KELLEY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

300 SOUTH JEFFERSON STREET, SUITE A, WINCHESTER, TN 37398

Office: 931-967-0611

Fax: 931-967-4784

www.brkcpa.com

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

To the Board of Directors
Franklin County Library
Winchester, Tennessee

We have audited the financial statements of the governmental fund, and each major fund of the Franklin County Library, (a part of the primary government of Franklin County, Tennessee), as of and for the year ended June 30, 2009, which collectively comprise the Franklin County Library's financial statements and have issued our report thereon dated December 3, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Franklin County Library's internal control over financial reporting. Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Prior Year's Significant Deficiencies:

I. Significant Deficiency:

There was a lack of documentation for some expenditures and reimbursements. – This problem still exists.

Recommendation:

We suggest invoices, receiving reports (signed), and other documents should be obtained for all purchases, including reimbursements. They should be attached together and filed in such a way that they can be easily found for future reference and audit. Each invoice should be stamped paid when each check is written along with the date and amount of the payment. Statements should be reconciled to invoices when multiple payments are made. The date on the check should also be traced back to the same date on the general ledger and posted in the correct disbursement account.

Board's Comment:

We will address this problem and improve our documentation systems.

2. Significant Deficiency:

In our review of the overall accounting controls of the Library's accounting system, we found several areas where proper segregation of duties might be obtained. The Library's inability to properly segregate the control of funds from record-keeping duties is a significant weakness in controls. It is understood that due to the lack of available personnel this situation does and will continue to exist. The Board should realize the additional responsibilities imposed. – This problem still exists.

Recommendation:

Because of the number of office staff working for the Library, we do not believe a complete segregation of duties is possible that would eliminate all weaknesses in the Library's accounting system. However, a thorough study of the internal control aspect of the accounting system should be considered by the Library. Certain additional procedures and segregation of proper duties could increase the control over the assets.

Board's Comment:

Because of the size and nature of the Library's operation, there is no practical way to remedy this situation. We will work on these issues to mitigate the risks.

3. Significant Deficiency:

In our test of disbursements, we found that purchase orders were not used. – This problem no longer exists.

4. Significant Deficiency:

During our review, we found checks were not being properly voided. – This problem no longer exists.

5. Significant Deficiency:

In our test of disbursements, we found instances where items were paid from copies of invoices as well as statements instead of the original invoices. – This problem no longer exists.

6. Significant Deficiency:

Daily receipt totals are not being reconciled. – This problem no longer exists.

7. Significant Deficiency:

During our review of disbursements, we found checks made payable to "cash". – This problem no longer exists.

Current Year's Significant Deficiency:

1. Significant Deficiency:

During the course of the audit, it was noted that payroll tax reporting required for federal and state reporting purposes were not filled out correctly. – This problem still exists.

Recommendation:

Payroll summaries and other payroll schedules utilized by management should be filled out completely, checked for mathematical accuracy in calculating pay as well as payroll taxes. Pay rates should be traced back to corresponding County rate or rate approved by Board. Timesheets should be signed by each employee and corrections on timecards should be initialed by the employee as well as the Director.

Board's Comment:

We will work to correct this problem.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe none of the significant deficiency described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* which are listed below.

Prior Year's Audit Findings:

1. Finding:

In our review of receipts and bank deposits, we found monies being held longer than three days before a deposit was made to the bank. – This problem still exists, although vastly improved during the year.

Recommendation:

Section 5-8-207, *Tennessee Code Annotated* requires county officials to deposit funds within three days after collection. In order to safeguard public monies, we recommend that all money collected be deposited promptly.

Board's Comment:
We will correct this problem.

2. Finding:
During the course of the audit, it was noted that sales tax was being paid on some invoices. – This problem no longer exists.
3. Finding:
In our review of disbursements, it was noted that checking accounts only require one signature to write checks or withdraw funds. – This problem still exists.

Recommendation:
Dual signatures ensure a review of disbursements and additional examination of invoices about to be paid. All certificates of deposit and investments should require at least dual signatures to withdraw funds. Also, the list of acceptable signatures should be updated frequently to monitor access to those funds.

Board's Comment:
This situation was related to a debit card, which has since been cancelled.

Current Year's Audit Findings:

1. Finding:

We noted that actual expenditures exceeded the amount appropriated in the budget in some funds.

Recommendation:
This practice is contrary to state statutes, which require all expenditures of the general and special revenue funds to be authorized by the governing body. All expenditures should be authorized either in the original budget or an amendment to that budget or in a supplemental appropriation.

Board's Comment:
We will strive to comply with state statutes in the future.

The Franklin County Library's response to the findings identified in our audit is described above. We did not audit the Franklin County Library's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management, the County Commissioners, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.



Bean, Rhoton & Kelley, PLLC
December 3, 2009