

AUDITED FINANCIAL STATEMENTS
LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT
FAYETTEVILLE, TENNESSEE
June 30, 2012

LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT

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LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT

SCHEDULE OF BOARD MEMBERS AND MANAGEMENT OFFICIAL

June 30, 2012

BOARD

Douglas Carver, Chairman

Murray Blackwelder, Vice Chairman

Mike Hall, Secretary

Joe Vann, Treasurer

James McNeal

Billy Gray

Robert Strobe

Danny Travis

Richard Wright

Joe Young

MANAGEMENT

Mike Hopson, Executive Director

DAVID A. KIDD
Certified Public Accountant

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Fayetteville, TN 37334

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lincoln County "9-1-1" Emergency Communications District
Fayetteville, Tennessee

I have audited the accompanying financial statements of the Lincoln County "9-1-1" Emergency Communications District (the "District"), a component unit of Lincoln County, Tennessee, as of and for the year ended June 30, 2012. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Lincoln County "9-1-1" Emergency Communications District as of June 30, 2012 and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated January 9, 2013, on my consideration of Lincoln County "9-1-1" Emergency Communications District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of my audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of my audit.

The District's management has omitted the 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. My opinion on the basic financial statements is not affected by this missing information.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section and budgetary comparison schedule are presented for the purposes of additional analysis and are not a required part of the financial statements. The budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section 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.

January 9, 2013

DAVID A. KIDD

LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

ASSETS

CURRENT ASSETS

Cash	\$ 145,984
Certificates of deposit	270,902
Interest receivable	636
Accounts receivable	19,451
Due from Tennessee Emergency Communications Board	23,048
Prepaid expenses-maintenance contracts	<u>50,890</u>
Total Current Assets	<u>510,911</u>

NONCURRENT ASSETS

Property and equipment, net	1,448,774
Prepaid expenses-maintenance contracts, net of current portion	<u>149,499</u>
Total Noncurrent Assets	<u>1,598,273</u>

TOTAL ASSETS

2,109,184

LIABILITIES

CURRENT LIABILITIES

Accounts payable	1,955
Due to City of Fayetteville	<u>72,373</u>
Total Current Liabilities	<u>74,328</u>

TOTAL LIABILITIES

74,328

NET ASSETS

Invested in capital assets	1,448,774
Unrestricted assets	<u>586,082</u>
TOTAL NET ASSETS	<u>\$ 2,034,856</u>

The accompanying notes are an integral part of these financial statements.

LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

For the Year Ended June 30, 2012

OPERATING REVENUES:

Emergency telephone service charge	\$ 141,912
Tennessee Emergency Communications Board-Shared Wireless Charge	77,787
Tennessee Emergency Communications Board-Operational Funding	<u>214,130</u>
Total Operating Revenues	433,829

OPERATING EXPENSES:

Salaries & Wages

Overtime wages	6,603
Bonuses	75
Other wages & salaries-IT department	30,408
Other wages & salaries-GIS/Mapping department	<u>7,500</u>
Total Salaries & wages	<u>44,586</u>

Employee Benefits

Social security & medicare	2,184
Life insurance	157
Medical insurance	6,071
Unemployment compensation	438
Retirement contributions	2,999
Other fringe benefits	<u>561</u>
Total Employee Benefits	<u>12,410</u>

Contracted Services

Addressing/Mapping	815
Advertising	1,124
Audit services	2,750
Accounting services	1,652
Legal services	5,849
Maintenance agreements	49,580
Mapping/Database consultants	343
Weather warning software service	1,560
NCIC/TBI/TIES expenses	4,720
Lease/rental-Communications equipment	38,629
Maintenance & repairs-Communications equipment	2,621
Maintenance & repairs-Buildings & facilities	6,309
Maintenance & repairs-Office equipment	386
Maintenance & repairs-Vehicles	334
Fuel-Vehicles	3,392
Miscellaneous contracted services	<u>483</u>
Total Contracted Services	<u>120,547</u>

LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (CONTINUED)
For the Year Ended June 30, 2012

Supplies & Materials

Office supplies	2,638
Postage	185
Small equipment	861
Utilities-Electric	17,377
Utilities-Gas	403
Utilities-Water & Sewer	695
Utilities-General Telephone	8,226
Operating supplies	3,485
Total Supplies & Materials	<u>33,870</u>

Other Charges

Insurance-Workers compensation	3,049
Insurance-Liability	3,515
Insurance-Building & contents	9
Insurance-Vehicles	412
Legal notices	39
Premiums on surety bonds	499
Training expenses	1,560
Travel	2,187
Internet Service	522
Miscellaneous	388
Total Other Charges	<u>12,180</u>

Depreciation

Depreciation expense	125,238
Total Depreciation	<u>125,238</u>

Total Operating Expenses 348,831

Operating Income(Loss) 84,998

NONOPERATING REVENUES (EXPENSES):

Interest income	8,777
Tennessee Emergency Communications Board-Grants and Reimbursements	235,951
Total Nonoperating Revenue/(Expense)	<u>244,728</u>
INCREASE(DECREASE) IN NET ASSETS	329,726
NET ASSETS, beginning of year	<u>1,705,130</u>
NET ASSETS, end of year	<u>\$ 2,034,856</u>

The accompanying notes are an integral part of these financial statements.

LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from surcharges & other revenues	\$ 416,399
Cash paid to suppliers for goods & services	(207,344)
Cash payments for payroll, taxes & related benefits	<u>(63,456)</u>
Net Cash Used by Operating Activities	<u>145,599</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grants/Reimbursements TECB	<u>235,951</u>
Cash Provided by Noncapital Financing Activities	<u>235,951</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to property and equipment	(549,237)
Prepayment of maintenance contracts	<u>(149,499)</u>
Cash Used by Capital and Related Financing Activities	<u>(698,736)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease in investments	99,894
Interest income received	<u>8,777</u>
Cash Provided by Investing Activities	<u>108,671</u>
NET DECREASE IN CASH	(208,515)
CASH, beginning of year	<u>354,499</u>
CASH, end of year	<u><u>\$ 145,984</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating income	\$ 84,998
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	125,238
Change in operating assets and liabilities:	
Increase in receivables	(17,430)
Increase in prepaid expenses	(40,903)
Decrease in payables	<u>(6,304)</u>
Net Cash Used by Operating Activities	<u><u>\$ 145,599</u></u>

The accompanying notes are an integral part of these financial statements.

LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies and the reporting requirements of the Lincoln County "9-1-1" Emergency Communications District ("the District") conform to generally accepted accounting principles as applicable to governmental entities. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. As allowed by GASB Statement No. 20, the Board has elected to not follow pronouncements of the Financial Accounting Standards Board issued subsequent to November 30, 1989.

Reporting Entity

The Lincoln County "9-1-1" Emergency Communications District was organized in 1990 under the "Emergency Communications District Law", Tennessee Code Annotated, Title 7, Chapter 86, in the State of Tennessee for the purpose of establishing a uniform emergency number to shorten the time required for a citizen to request and receive emergency aid in Lincoln County, Tennessee.

The District represents an enterprise fund, a legal entity separate and apart from Lincoln County, Tennessee (the "County" and "Primary Government"). The District's financial statements are reported as a discretely presented component unit of the Primary Government. The District is governed by the Lincoln County "9-1-1" Emergency Communications District Board which consists of eight members appointed by the Lincoln County Board of Commissioners, the Chief of Police of Fayetteville, Tennessee, and the Sheriff of Lincoln County, Tennessee. Each member serves a four-year term. The Directors have the authority to do all things necessary to conduct the business of the District including appointing and fixing the salaries, benefits, and duties of employees and hiring experts and consultants. The District is restricted on the type of debt it can incur without the approval of Lincoln County, Tennessee.

Revenue Recognition

The accompanying statements are prepared on the accrual basis utilizing generally accepted accounting principles applicable to Tennessee emergency communications districts. Revenues are recognized when earned (operating revenues as described in Note B are recognized when collected by the service providers) and expenses when incurred. Operating revenues and expenses generally result from charges collected by service providers under the Emergency Communications District Law and related fees for services. Deferred revenues, primarily grant contributions, are recorded when resources have been received, but not yet earned or not considered to be available to liquidate liabilities of the current period. Operating expenses include the cost of contractual services, supplies, repairs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Risk Management

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. Lincoln County, Tennessee maintains and pays the premiums for commercial insurance coverage for each of these risks of losses for the District.

Insurance settlements have not exceeded the coverage in any of the past three years. There were no reductions in insurance coverage compared to the prior year.

LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable represent fees collected by certain service providers that are due to the District as of year end. Uncollectible fees/revenues are accounted for as a reduction of revenues based upon periodic review of accounts receivable. As of June 30, 2012, in the opinion of management, there were no uncollectible accounts receivable.

Property and Equipment

Property and equipment is stated at cost. The capitalization threshold for an individual item is \$500. Depreciation expense is calculated on the straight-line method. The depreciation method and rates are designed to amortize the cost of the assets over their estimated useful lives. The useful life for buildings is 40 years, land improvements is 15 years and communications and office equipment is 3 to 15 years. Maintenance and repairs are charged to expense as incurred.

Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There were no capitalized interest costs on borrowed funds for the year ended June 30, 2012.

Statement of Cash Flows - Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Deposits and Investments

Statutes authorize the District to invest in: (1) U.S. government securities and obligations guaranteed by the U.S. government; (2) deposit accounts at state and federal chartered banks and savings and loan associations; (3) the Local Government Investment Pool of the State of Tennessee; and (4) obligations of the United States or its agencies under repurchase agreements with certain restrictions. In 2012 the Board invested only in certificates of deposit with maturities of two to three and one-half years, which are carried at cost.

Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's Bank Collateral Pool. As of June 30, 2012, all of the District's cash was insured through participation in the State of Tennessee Bank Collateral Pool.

The District has not adopted formal deposit or investment policies for exposure to various forms of risks associated with its deposit and investment practices, other than to follow State statutes as described above.

Budgetary Basis

The District adopts a budget in accordance with the requirements of Section 7-86-120, *Tennessee Code Annotated*. The budget is adopted on another comprehensive basis of accounting which is not in accordance with generally accepted accounting principles. The budgetary basis of accounting includes

LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

expenditures for capital assets and does not include non-cash expenses such as depreciation.

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 during the reporting period. Actual results could differ from those estimates.

Note B - OPERATIONS

The District receives operating revenues from telephone service providers' customers by charging a monthly fee of \$.65 to residential and \$2.00 to business customers. These are the maximum charges allowed by the "Emergency Communications District Law" and there are no plans to decrease them in the near future. The District has contracted for services to lease and maintain lines and equipment for approximately \$3,200 per month. The actual monthly costs vary depending on the number of users on the system.

The District also receives operating revenues from the Tennessee Emergency Communications Board (ECB). The ECB receives 25% of the wireless E-911 charge collected from the state's wireless/cellular telephone subscribers, and in turn remits to each E-911 district its portion of the funds collected based on that District's population.

Note C - ON-BEHALF PAYMENTS FOR DISPATCH SERVICES

The City of Fayetteville, Tennessee and Lincoln County, Tennessee provide central dispatch services for police, fire, ambulance and the District's emergency communications, among others. These services include payment for dispatch salaries and benefits on an equal basis. Generally accepted accounting principles require disclosure of these on-behalf payments. The on-behalf payments by the city and county totaled \$629,196 for the year ended June 30, 2012. These payments include salaries, taxes and related benefits for the year ended June 30, 2012.

Note D - PROPERTY AND EQUIPMENT

Capital asset activity for the year ended June 30, 2012 was as follows:

	06/30/11	Additions	Retirements	Transfers	06/30/12
Land	\$ 171,110	\$ -	\$ -	\$ -	\$ 171,110
Land Improvements	185,824	75,529	-	-	261,353
Building	599,767	-	-	-	599,767
Communications & Office Equipment	783,282	473,708	-	-	1,256,990
Vehicle	28,244	-	-	-	28,244
	<u>\$ 1,768,227</u>	<u>\$ 549,237</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,317,464</u>

LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

The related activity for accumulated depreciation for the year ended June 30, 2012 was as follows:

	<u>06/30/11</u>	<u>Additions</u>	<u>Retirements</u>	<u>06/30/12</u>
Land Improvements	\$ 18,016	\$ 14,906	\$ -	\$ 32,922
Building	150,185	14,630	-	164,815
Communications & Office Equipment	552,965	95,702	-	648,667
Vehicle	<u>22,286</u>	<u>-</u>	<u>-</u>	<u>22,286</u>
	<u>\$ 743,452</u>	<u>\$ 125,238</u>	<u>\$ -</u>	<u>\$ 868,690</u>

Depreciation for the year ended June 30, 2012 totaled \$125,238.

Note F- PLANNED PROJECTS

Planning is in progress for the construction of a tower at the Communications Center. The project is expected to cost approximately \$335,000 and will be funded by Board funds. Construction is anticipated to begin during the year ended June 30, 2013.

LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)

For the Year Ended June 30, 2012

	<u>Original Budget</u> <u>(Budgetary Basis)</u>	<u>Actual</u> <u>(Budgetary Basis)</u>	<u>Variance</u> <u>Under(Over)</u>
<u>OPERATING REVENUES:</u>			
Emergency telephone service charge	\$ 121,000	\$ 141,912	\$ 20,912
Tennessee Emergency Communications Board-Shared Wireless Charge	81,000	77,787	(3,213)
Tennessee Emergency Communications Board-Operational Funding	<u>204,000</u>	<u>214,130</u>	<u>10,130</u>
Total Operating Revenues	406,000	433,829	27,829
<u>OPERATING EXPENSES:</u>			
<u>Salaries & Wages</u>			
Overtime wages	10,000	6,603	3,397
Bonuses	400	75	325
Other wages & salaries-IT department	31,050	30,408	642
Other wages & salaries-GIS/Mapping department	<u>-</u>	<u>7,500</u>	<u>(7,500)</u>
Total Salaries & wages	<u>41,450</u>	<u>44,586</u>	<u>(3,136)</u>
<u>Employee Benefits</u>			
Social security & medicare	2,850	2,184	666
Life insurance	250	157	93
Medical insurance	6,200	6,071	129
Unemployment compensation	15	438	(423)
Retirement contributions	3,000	2,999	1
Other fringe benefits	<u>-</u>	<u>561</u>	<u>(561)</u>
Total Employee Benefits	<u>12,315</u>	<u>12,410</u>	<u>(95)</u>
<u>Contracted Services</u>			
Addressing/Mapping	5,000	815	4,185
Advertising	-	1,124	(1,124)
Audit services	3,000	2,750	250
Accounting services	1,500	1,652	(152)
Legal services	1,000	5,849	(4,849)
Maintenance agreements	28,632	49,580	(20,948)
Mapping/Database consultants	5,000	343	4,657
Weather warning software service	-	1,560	(1,560)
NCIC/TBI/TIES expenses	12,000	4,720	7,280
Pest Control	240	-	240
Lease/rental-Communications equipment	43,000	38,629	4,371
Maintenance & repairs-Communications equipment	5,000	2,621	2,379
Maintenance & repairs-Buildings & facilities	1,500	6,309	(4,809)
Maintenance & repairs-Office equipment	1,000	386	614
Maintenance & repairs-Vehicles	6,000	334	5,666
Fuel-Vehicles	1,800	3,392	(1,592)
Miscellaneous contracted services	<u>-</u>	<u>483</u>	<u>(483)</u>
Total Contracted Services	<u>114,672</u>	<u>120,547</u>	<u>(5,875)</u>
<u>Supplies & Materials</u>			
Office supplies	4,700	2,638	2,062
Custodial supplies	1,000	-	1,000
Postage	200	185	15
Small equipment	2,000	861	1,139
Uniforms	2,600	-	2,600
Utilities-Electric	13,000	17,377	(4,377)
Utilities-Gas	800	403	397
Utilities-Water & Sewer	500	695	(195)
Utilities-General Telephone	9,000	8,226	774
Operating supplies	<u>3,500</u>	<u>3,485</u>	<u>15</u>
Total Supplies & Materials	<u>37,300</u>	<u>33,870</u>	<u>3,430</u>
<u>Other Charges</u>			
Dues & memberships	2,500	-	2,500
Employee Testing and Exams	400	-	400
Insurance-Workers compensation	4,500	3,049	1,451
Insurance-Building & contents	-	3,515	(3,515)
Insurance-Liability	3,400	9	3,391
Insurance-Vehicles	300	412	(112)
Legal notices	200	39	161
Licenses and fees	600	-	600
Premiums on surety bonds	1,000	499	501
Service awards	200	-	200

LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT
 BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)-CONTINUED
 For the Year Ended June 30, 2012

Training expenses	21,000	1,560	19,440
Travel	10,500	2,187	8,313
Internet charges	600	522	78
Miscellaneous	-	388	(388)
Capital purchases	318,000	549,237	(231,237)
Total Other Charges	<u>363,200</u>	<u>561,417</u>	<u>(198,217)</u>
Total Operating Expenses-Budgetary Basis	<u>568,937</u>	<u>772,830</u>	<u>(203,893)</u>
 <u>NON-OPERATING REVENUES (EXPENSES):</u>			
Interest income	-	8,777	8,777
Tennessee Emergency Communications Board-Grants and Reimbursements	-	235,951	235,951
Total Non-operating Revenues/(Expense)	<u>-</u>	<u>244,728</u>	<u>244,728</u>
 Net Income per Budgetary Basis	 <u>\$ (162,937)</u>	 <u>(94,273)</u>	 <u>\$ (68,664)</u>
 <u>Reconciliation of Budgetary Basis to GAAP Basis</u>			
Capital purchases		<u>549,237</u>	
Net Reconciliation Budgetary to GAAP		<u>549,237</u>	
 INCREASE(DECREASE) IN NET ASSETS		 454,964	
NET ASSETS, beginning of year		<u>1,705,130</u>	
NET ASSETS, end of year		<u>\$ 2,160,094</u>	

DAVID A. KIDD
Certified Public Accountant

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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
Lincoln County "9-1-1" Emergency Communications District
Fayetteville, Tennessee

I have audited the financial statements of the Lincoln County "9-1-1" Emergency Communications District (the "District"), a component unit of Lincoln County, Tennessee, as of and for the year ended June 30, 2012, and have issued my report thereon dated January 9, 2013. 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.

Internal Control Over Financial Reporting

Management of the Lincoln County "9-1-1" Emergency Communications District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 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.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2009-1.

I noted certain matters that I have reported to management of the Lincoln County "9-1-1" Emergency Communications District in a separate letter dated January 9, 2013.

Lincoln County "9-1-1" Emergency Communications District's response to the finding is described in the accompanying schedule of findings and responses. I did not audit the District's response and, accordingly, I express no opinion on it.

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

January 9, 2013

DAVID A. KIDD

LINCOLN COUNTY "9-1-1" EMERGENCY COMMUNICATIONS DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2012

Item 2009-1: Budget Variances:

I noted that actual expenses exceeded the budget in numerous line-item categories. Tennessee Code Annotated, Section 7-86-120, states that money should be spent only in accordance with a legally adopted budget.

Management response: Budget versus actual analysis will be performed regularly to ensure compliance with the budget.