

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION
GILES COUNTY E-911 COMMUNICATIONS DISTRICT
PULASKI, TENNESSEE
June 30, 2013**

GILES COUNTY E-911 COMMUNICATIONS DISTRICT

PULASKI, TENNESSEE

June 30, 2013

BOARD

Roy Griggs, Chairman

Kyle Helton, Treasurer

Don Collins

John Dickey

Barry Whitt

Pat Ford

Janet VanZant

Tracy Wilburn

Kathy Hinkle

DIRECTOR

Mike Goode

GILES COUNTY E-911 COMMUNICATIONS DISTRICT

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PUTMAN & HANCOCK

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Giles County E-911 Communications District
Pulaski, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Giles County E-911 Communications District ("the District"), a component unit of Giles County, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the 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.

Auditors' Responsibility

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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Giles County E-911 Communications District as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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. Our opinion on the basic financial statements is not affected by this missing information.

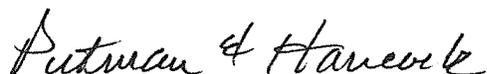
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying other financial information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other financial information 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. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 our opinion, the accompanying other financial information is fairly stated, in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013, on our consideration of Giles County E-911 Communications District'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* in considering Giles County E-911 Communications District's internal control over financial reporting and compliance.



Fayetteville, Tennessee
September 26, 2013

GILES COUNTY E-911 COMMUNICATIONS DISTRICT
STATEMENT OF NET POSITION
June 30, 2013

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,218,037
Accrued interest receivable	50
Accounts receivable	23,756
Prepaid expense	<u>13,257</u>
Total Current Assets	<u>1,255,100</u>

NONCURRENT ASSETS

Property and equipment, net	206,427
Utility deposits	<u>85</u>
	<u>206,512</u>

TOTAL ASSETS	<u>1,461,612</u>
--------------	------------------

LIABILITIES

Accrued payroll	8,745
Accrued payroll expenses	1,289
Accumulated compensated absences	<u>13,779</u>
TOTAL LIABILITIES	<u>23,813</u>

NET POSITION

Net investment in capital assets	206,427
Unrestricted	<u>1,231,372</u>
TOTAL NET POSITION	<u>\$ 1,437,799</u>

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

GILES COUNTY E-911 COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2013

OPERATING REVENUES:	
Emergency telephone service charges	\$ 260,771
Emergency shared wireless service charges	71,467
Emergency operational funding	186,614
Total Operating Revenues	<u>518,852</u>
OPERATING EXPENSES:	
Salaries - director	50,609
Salaries - dispatch & mapping	337,134
Employee benefits	122,485
Maintenance contracts	31,290
Repairs - building and facilities	3,918
Accounting services	2,900
Audit services	4,847
Legal fees	2,456
Insurance	17,232
NCIC charge	4,600
Depreciation	34,593
Travel	3,150
Training	3,471
Fees paid to service providers	17,520
Addressing/mapping contracted services	1,804
Administrative telephone	11,146
Supplies and materials	11,744
Utilities	9,751
Other charges	<u>983</u>
Total Operating Expenses	<u>671,633</u>
Loss from Operations	<u>(152,781)</u>
NONOPERATING REVENUES:	
Interest income	7,573
Miscellaneous income	<u>5,130</u>
Total Nonoperating Revenues	<u>12,703</u>
Loss Before Contributions:	(140,078)
Contributions from primary government	102,800
Contributions from other governments and agencies	132,200
Contributions from State Emergency Communications Board	<u>41,195</u>
CHANGE IN NET POSITION	136,117
Net position, beginning of year	<u>1,301,682</u>
Net position, end of year	<u><u>\$ 1,437,799</u></u>

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

GILES COUNTY E-911 COMMUNICATIONS DISTRICT
STATEMENT OF CASH FLOWS
Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 517,793
Other operating cash receipts	5,130
Cash paid to suppliers for goods and services	(249,032)
Cash paid to employees	<u>(389,809)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(115,918)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Contributions from primary government	102,800
Contributions from other governments and agencies	132,200
Contributions from State Emergency Communications Board	<u>41,195</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>276,195</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to property and equipment	<u>(39,746)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(39,746)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income received	<u>7,576</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>7,576</u>
INCREASE IN CASH - NET	128,107
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,089,930</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,218,037</u></u>
RECONCILIATION OF OPERATING LOSS TO NET	
CASH FLOWS FROM OPERATING ACTIVITIES:	
Loss from operations	\$ (152,781)
Adjustments to reconcile operating loss to net cash -	
Depreciation	34,593
Miscellaneous income	5,130
Changes in operating assets and liabilities:	
Accounts receivable	(1,059)
Prepaid expenses	(104)
Accounts payable	-
Accrued payroll	2,347
Accrued payroll taxes	369
Accumulated compensated absences	<u>(4,413)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (115,918)</u></u>

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

GILES COUNTY E-911 COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note A - SUMMARY OF ACCOUNTING POLICIES

The accounting policies and the reporting requirements of the Giles County 911 Communications District ("the District") conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting standards. The GASB's *Codification of Governmental Accounting and Financial Reporting Standards* document these principles.

Reporting Entity

The Giles County 911 Communications District ("the District") was authorized by state statute subject to the "Emergency Communications District Law", Tennessee Code Annotated, Chapter 86, for the purpose of establishing a uniform emergency number to shorten the time required for a citizen to request and receive emergency aid in Giles County, Tennessee. The legislative body of Giles County, by resolution, created the E-911 District to operate within the boundaries of Giles County. The District represents a legal entity separate and apart from Giles County, Tennessee ("the County" and "Primary Government"). The District is a component unit of the County and its financial statements are reported as a discretely presented component unit of the Primary Government. The governing body is comprised of nine directors initially appointed by the Giles County Board of Commissioners. Vacancies on the Board are appointed by a majority vote of the Board of Directors. The Board of Directors appoints a chairman and hires employees and consultants as necessary. The Board also has the power to set user fee rates up to the maximum charges allowed by the "Emergency Communications District Law", and do all things necessary to conduct other business of the District. The District is restricted as to the type of debt it can incur without the approval of Giles County, Tennessee.

Revenue Recognition

The accompanying statements are prepared on the accrual basis of accounting using the economic resources measurement focus utilizing generally accepted accounting principles applicable to Tennessee emergency communications districts. Revenues are recognized when earned (operating revenues as described in Note D 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. Operating expenses include the cost of personnel and contractual services, supplies, repairs and depreciation on all capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

GILES COUNTY E-911 COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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. The District maintains and pays the premiums for commercial insurance coverage for each of these risks of losses. Settled claims in the past three years have not exceeded the insurance coverage. There were no reductions in insurance coverage compared to the prior year.

Property and Equipment

Property and equipment are stated at cost. Depreciation expense is calculated on the straight-line method. It is the policy of The District to depreciate assets purchased for \$1,000 or more. The depreciation method and rates are designed to amortize the cost of the assets over their estimated useful lives. The useful life for the building is 40 years and equipment is 5 to 10 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. No interest was capitalized for the current year.

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.

State 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.

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 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.

Accounts Receivable

Accounts receivable at June 30, 2013, represents fees collected by service providers that are due to the District as of year end. Uncollected fees/revenues are accounted for as a reduction of revenues based upon a periodic review of accounts receivable. As of June 30, 2013, in the opinion of management there were no uncollectible accounts receivables.

**GILES COUNTY E-911 COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

Note A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The District is exempt from federal and state income taxes.

Accumulated Compensated Absences

The costs of vacation leave benefits granted to employees are recorded as expenditures when earned.

Note B - CASH

All the District's deposits were covered by federal depository insurance or by the bank collateral pool administered by the Treasurer of the State of Tennessee, as of June 30, 2013.

Note C - PROPERTY AND EQUIPMENT

Capital asset activity for the year ended June 30, 2013 was as follows:

Capital assets being depreciated:	COST			
	Balance 6/30/2012	Additions	Retirements	Balance 6/30/2013
Building	\$ 119,643	\$ -	\$ -	\$ 119,643
Equipment	513,595	39,746	-	553,341
Furniture & fixtures	6,071	-	-	6,071
	<u>\$ 639,309</u>	<u>\$ 39,746</u>	<u>\$ -</u>	<u>\$ 679,055</u>

The related activity for accumulated depreciation for the year ended June 30, 2013 was as follows:

	Balance 6/30/2012	Additions	Retirements	Balance 6/30/2013
Building	\$ 51,019	\$ 3,697	\$ -	\$ 54,716
Equipment	381,676	30,402	-	412,078
Furniture & fixtures	5,341	494	-	5,835
	<u>\$ 438,036</u>	<u>\$ 34,593</u>	<u>\$ -</u>	<u>\$ 472,628</u>

Depreciation for the year ended June 30, 2013 totaled \$34,593.

GILES COUNTY E-911 COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note D - OPERATIONS

The District receives operating revenues from AT&T and Ardmore Telephone Company customers by charging a monthly fee of \$1.50 to residential and \$3.00 to business customers. These are the maximum charges allowed by the "Emergency Communications District Law" and there are no plans to decrease these rates in the near future. The District pays AT&T approximately \$1,480 per month to lease and maintain lines and equipment. The actual monthly cost varies 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 100% of the wireless E-911 charge collected from the state's wireless/cellular telephone users and subscribers, and in turn remits 25% to each E-911 district its portion of the funds collected based on that district's population.

Note E - RETIREMENT BENEFITS

The District provides a defined contribution plan covering all full-time employees. Provisions of the plan provide for both employee and employer contributions. Under the plan, the District matches employee contributions up to 3% of the employee's base pay. Employer contributions to the plan totaled \$7,894 for the year ended June 30, 2013 while employee contributions totaled \$11,445.

Note F - BUDGETS

The District prepares an annual budget in accordance with the requirements of section 7-186-120, Tennessee Code Annotated. The budget reflects all expected revenues and expenditures of the District for the ensuing fiscal year. Expenses are budgeted at the legal level of control which is at the line item level. The approved budget is integrated into the accounting system and employed as a management control device during the year. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

OTHER FINANCIAL INFORMATION

GILES COUNTY E-911 COMMUNICATIONS DISTRICT
BUDGET AND ACTUAL
SCHEDULE OF BUDGETED REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES:			
Emergency telephone service charges	\$ 269,446	\$ 260,771	\$ (8,675)
Emergency shared wireless service charges	69,000	71,467	2,467
Emergency operational funding	<u>142,791</u>	<u>186,614</u>	<u>43,823</u>
Total Operating Revenues	481,237	518,852	37,615
OPERATING EXPENSES:			
Salaries - director	53,400	50,609	2,791
Salaries, wages and benefits - dispatch	350,709	337,134	13,575
Employee benefits	138,057	122,485	15,572
Maintenance contracts	38,408	31,290	7,118
Repairs - buildings and facilities	9,052	3,918	5,134
Accounting services	3,331	2,900	431
Audit services	5,000	4,847	153
Legal services	2,598	2,456	142
Insurance	19,650	17,232	2,418
NCIC charge	4,600	4,600	-
Depreciation	40,860	34,593	6,267
Travel	6,221	3,150	3,071
Training	6,055	3,471	2,584
Fees paid to service providers	18,000	17,520	480
Addressing/mapping contracted services	2,400	1,804	596
Administrative telephone	12,000	11,146	854
Supplies and materials	46,230	11,744	34,486
Utilities	10,971	9,751	1,220
Other charges	<u>1,226</u>	<u>983</u>	<u>243</u>
Total Operating Expenses	<u>768,768</u>	<u>671,633</u>	<u>97,135</u>
Loss from Operations	<u>(287,531)</u>	<u>(152,781)</u>	<u>134,750</u>
NONOPERATING REVENUES			
Interest income	8,160	7,573	(587)
Miscellaneous income	<u>5,130</u>	<u>5,130</u>	<u>-</u>
Total Nonoperating Revenue	<u>13,290</u>	<u>12,703</u>	<u>(587)</u>
Loss Before Contributions	(274,241)	(140,078)	134,163
Contributions from primary governments	102,800	102,800	-
Contributions from other governments and agencies	132,200	132,200	-
Contributions from State Emergency Communications Board	<u>39,241</u>	<u>41,195</u>	<u>1,954</u>
CHANGE IN NET POSITION	-	136,117	136,117
NET POSITION, beginning of year	<u>1,301,682</u>	<u>1,301,682</u>	<u>-</u>
NET POSITION, end of year	<u>\$ 1,301,682</u>	<u>\$ 1,437,799</u>	<u>\$ 136,117</u>

GILES COUNTY E-911 COMMUNICATIONS DISTRICT
 SCHEDULE OF INSURANCE
 June 30, 2013

	<u>Coverage Amount</u>
Property coverage:	
Real property	\$ 225,117
Tower property	155,100
Personal property-on and off premises	537,761
Software	250,000
Earthquake	225,117
Flood	225,117
General liability:	
Aggregate limit	3,000,000
Each occurrence	1,000,000
Personal injury	1,000,000
Medical expense	5,000
Umbrella liability:	
Aggregate limit	3,000,000
Each occurrence	1,000,000
Automobile liability:	1,000,000
Workmen's compensation	500,000
Fidelity bond:	
Chairman	100,000
Treasurer	100,000
Secretary	100,000
Money & Securities	10,000

**GILES COUNTY E-911 COMMUNICATIONS DISTRICT
SCHEDULE OF RATES AND NUMBER OF CUSTOMERS
June 30, 2013**

The District receives operating revenues from AT&T and Ardmore Telephone Company customers by charging a monthly fee of \$1.50 to residential and \$3.00 to business customers. These are the maximum charges allowed by the "Emergency Communications District Law" and there are no plans to decrease these rates in the near future. The District pays AT&T approximately \$1,480 per month to lease and maintain lines and equipment. The actual monthly cost varies depending on the number of users on the system.

The number of residential and business customers served as of June 30, 2013 was 11,636.

The District also receives operating revenues from the Tennessee Emergency Communications Board (ECB). The ECB receives 100% of the wireless E-911 charge collected from the state's wireless/cellular telephone users and subscribers, and in turn remits 25% to each E-911 district its portion of the funds collected based on that district's population.

PUTMAN & HANCOCK
Certified Public Accountants

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**INDEPENDENT AUDITORS' 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***

Board of Directors
Giles County E-911 Communications District
Pulaski, Tennessee

We have audited, 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, the financial statements of Giles County E-911 Communications District (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon, dated September 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our 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 responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as 2013-1 and 2013-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Giles County E911 Communications District Response to Findings

Giles County E-911 Communications District responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Autumn & Hancock".

Fayetteville, Tennessee

September 26, 2013

GILES COUNTY E-911 COMMUNICATIONS DISTRICT
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
June 30, 2013

FINDING NUMBER 2013-1*:

Condition and Criteria:

Due to a small number of office personnel, many duties are routinely performed the Director, such as depositing funds, preparing checks, and posting the general ledger. From an accounting control standpoint, these are incompatible duties.

Effect:

The absence of appropriate segregation of duties increases the possibility that assets may be misappropriated and not detected in a timely manner.

Auditors' Recommendations:

Incompatible duties related to accounting functions should be segregated to enhance internal controls over financial reporting. We realize that due to small staff size, the Board may not be able to correct this finding. However, our professional standards require that we bring this finding to your attention in this report.

Management Response:

In our opinion the costs of hiring personnel to improve segregation of duties would exceed the internal control benefits gained. We believe this weakness is mitigated through installation of certain compensating controls such as the use of budgets and active involvement of the Board in day-to-day operations.

FINDING NUMBER 2013-2:

Condition and Criteria:

While reviewing cash reconciliations, it was noted that certain transactions were postdated in the accounting system after the monthly reconciliation has been performed. As a result the account had to be adjusted to correct a duplicate entry.

Effect:

The absence of a proper cash reconciliation that can be agreed back to the general ledger increases the possibility that the financial statements may be materially misstated and not corrected in a timely manner.

Auditors' Recommendations:

Cash reconciliations should be performed in a timely manner after all entries for the month are posted.

Management Response:

Reconciliations will continue to be performed on a timely basis. We will verify that all transactions have been posted for the month prior to reconciling the bank account.

* Prior year finding.