LAKE COUNTY
EMERGENCY COMMUNICATIONS DISTRICT

FINANCIAL STATEMENTS

June 30, 2016

LAKE COUNTY EMERGENCY COMMUNICATIONS DISTRICT
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INTRODUCTORY SECTION

LAKE COUNTY EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF OFFICIALS AND KEY EMPLOYEES
June 30, 2016

Board Members

Doug Robertson – Chairman
David Gooch
Brenda Crittenden
Mildred Bobo
Bryan Avery
Jimmy Dale Snyder
Jack Mauldin
Brad Perkins

Nancy Klutts – Bookkeeper

FINANCIAL SECTION

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AICPA Center for Public Company Audit Firms
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Tennessee Society of Certified Public Accountants
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Independent Auditor's Report

Board of Directors
Lake County Emergency Communications District
Tiptonville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Lake County Emergency Communications District, a component unit of Lake County, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 Lake County Emergency Communications District as of June 30, 2016, 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 that collectively comprise the District's basic financial statements. The Schedule of Officials and Key Employees and Budgetary Comparison Schedule are presented for purposes of additional analysis and are not a required part of the basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Officials and Key Employees has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2016 on our consideration of the 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 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 Lake County Emergency Communications District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Union City, Tennessee
August 23, 2016

LAKE COUNTY EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

ASSETS		
Current assets		
Cash		$ 776,647
Noncurrent assets		
Buildings and improvements	42,710	
Furniture and fixtures	10,806	
Communications equipment	477,580	
Office equipment	15,199	
Accumulated depreciation	(305,477)	
Total noncurrent assets		240,818
Total assets		1,017,465
LIABILITIES		-
NET POSITION		
Investment in capital assets	240,818	
Unrestricted	776,647	
Total net position		**$ 1,017,465**

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

LAKE COUNTY EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2016

Operating revenue		
TECB distribution of 911 surcharge		$ 198,678
TECB distribution of excess revenue		3,828
Other operating revenue		1,271
Total operating revenue		203,777
Operating expenses		
Contracted services		
Addressing/mapping expense	10,600	
Audit services	3,575	
Accounting/bookkeeping services	10,600	
Fees paid to service provider	14,793	
Contracts to government agency	37,257	
Maintenance agreements	22,424	
Lease/rental - communications equipment	9,200	
Supplies and materials		
Office supplies	427	
Postage	121	
Small equipment purchases	9,320	
Uniforms and shirts	6,258	
Utilities - electric	698	
Utilities - water	433	
Utilities - general telephone	2,603	
Maintenance and repair - communications equipment	2,818	
Maintenance and repair - building and facilities	295	
Maintenance and repair - office equipment	45	
Other charges		
Bank charges	33	
Dues and memberships	100	
Insurance - building and contents	758	
Premium on surety bonds	325	
Depreciation expense	52,282	
Total operating expenses		184,965
Operating income		**18,812**
Non-operating income (expense)		
Interest income		1,345
Increase in net position		**20,157**
Net position - July 1, 2015		997,308
Net position - June 30, 2016		$ 1,017,465

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

LAKE COUNTY EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016

Cash flows from operating activities	
Cash received from surcharges and other revenues	$ 203,777
Cash payments to suppliers for goods and services	(132,683)
Net cash provided by operating activities	71,094
Cash flows from investing activities	
Interest earned on investments	1,345
Net increase in cash	**72,439**
Cash - July 1, 2015	704,208
Cash - June 30, 2016	$ 776,647

Reconciliation of operating income to net cash provided by operating activities

Operating income		$ 18,812
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	52,282	
Total adjustments		52,282
Net cash provided by operating activities		**$ 71,094**

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lake County Emergency Communications District was created in October 2000 by the legislative body of Lake County, Tennessee, to be an emergency communications district as defined by Tennessee state law. As such, it is considered to be a "municipality" or public corporation in perpetuity under its corporate name and shall be a body politic and corporate with power of perpetual succession, but without power to levy or collect taxes. All Tennessee emergency communications districts are required to follow the *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts* developed by the Office of the Comptroller of the Treasury, Division of County Audit, pursuant to Section 7-86-304, *Tennessee Code Annotated*.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles. The GASB has established criteria to determine whether (a) an entity has any component units that should be included for financial reporting purposes or (b) the entity itself should be included as a component unit of another reporting entity. The District's board is appointed by the Lake County Commission, and the District must obtain the approval of this Commission before issuance of most debt instruments. The County has determined that this constitutes fiscal dependency by the District and has, therefore, included the District as a component unit of Lake County.

The District is deemed to be a municipality under Tennessee state law and, as such, is exempt from federal income taxes.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Lake County Emergency Communications District is accounted for as a single enterprise fund as prescribed by the State. Enterprise funds are a type of proprietary fund and, as such, are reported in accordance with generally accepted accounting principles for proprietary funds as defined by GASB. Proprietary fund types are reported using the *economic resources* measurement focus and the accrual basis of accounting. The aim of this measurement focus is to report all inflows, outflows, and balances affecting or reflecting the entity's net position. The accrual basis of accounting recognizes income as it is earned and expenses as they are incurred, whether or not cash is received or paid out at that time.

Operating revenues in proprietary funds are those revenues generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. The State has defined grants and reimbursements from the Tennessee Emergency Communications Board to be nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

C. Assets, Liabilities, and Net Position

Cash and cash equivalents
The District'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 inception. At June 30, 2016, the District had no cash equivalents.

Capital assets
Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. The District adopted a capitalization policy that sets the capitalization threshold at $5,000 per unit cost. Interest costs incurred on financing during the construction or installation period of capital assets are capitalized as part of the cost of the assets. For the year under review, there were no interest costs capitalized.

Net position flow assumption
Sometimes the District 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 financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – The District's Board of Directors approves an appropriatory budget annually. The budget is prepared on a basis which differs from generally accepted accounting principles (GAAP) pertaining to proprietary funds, in that revenue and expenses are on the cash basis rather than the accrual basis, and noncash expenses, such as depreciation, are not budgeted. A reconciliation of the differences between budgetary basis and GAAP basis is as follows.

Increase in net position – budgetary basis	$ 72,439
Depreciation	(52,282)
Increase in net position – GAAP basis	$ 20,157

The legal level of control is at each line item of expense; therefore, each line item must be amended to authorize actual expenditures. For the year ended June 30, 2016, the District had expenses over budget in the following line-item:

Postage	$ 72

NOTE 3 – DETAILED NOTES ON ACCOUNTS

A. Cash deposits and investments

State statutes authorize the District to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, and the state pooled investment fund. As of June 30, 2016, investments consisted of certificates of deposit only.

Custodial credit risk is the risk that in the event of bank failure the District's deposits may not be returned to it. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by the Federal Reserve Banks acting as third party agents. As of June 30, 2016, all bank deposits were fully collateralized or insured.

B. Capital assets

Capital asset activity during the year was as follows:

Description	Balance 7/1/15	Additions	Disposals	Balance 6/30/16
Capital assets, being depreciated				
Building and improvements	$ 42,710	$ -	$ -	$ 42,710
Furniture and fixtures	10,806	-	-	10,806
Communications equipment	477,580	-	-	477,580
Office equipment	15,199	-	-	15,199
Total capital assets being depreciated	546,295	-	-	546,295
Less accumulated depreciation				
Building and improvements	2,848	1,067	-	3,915
Furniture and fixtures	2,614	1,081	-	3,695
Communications equipment	242,848	48,626	-	291,474
Office equipment	4,885	1,508	-	6,393
Total accumulated depreciation	253,195	52,282	-	305,477
Total capital assets, net	$ 293,100	$ (52,282)	$ -	$ 240,818

NOTE 4 – OTHER INFORMATION

Risk Management

The District is exposed to various risks related to general and public officials' liability, officers/directors omissions liability and property and casualty loss. Since the District's operations are run through the Lake County Sheriff's Department, the District is covered by Lake County's insurance. The County is insured through Local Government Insurance Pool, which is a public entity risk pool established to provide insurance coverage to local governments and is self-sustaining through member premiums. The pool reinsures through commercial insurance companies for claims in excess of a fixed amount set by the pool for each insured event. Settlements have not exceeded insurance coverage in any of the prior three years.

SUPPLEMENTARY INFORMATION SECTION

LAKE COUNTY EMERGENCY COMMUNICATIONS DISTRICT
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual Budgetary Basis	Variance Over (Under)
Operating revenue				
TECB distribution of 911 surcharge	$ 198,000	$ 198,678	$ 198,678	$ -
TECB distribution of excess revenue	-	3,828	3,828	-
Other operating revenues	-	-	1,271	1,271
Total operating revenue	198,000	202,506	203,777	1,271
Operating expenses				
Contracted services				
Addressing/mapping expense	10,600	10,600	10,600	-
Advertising	400	400	-	(400)
Audit services	3,600	3,575	3,575	-
Accounting/bookkeeping services	10,600	10,600	10,600	-
Fees paid to service provider	17,900	17,900	14,793	(3,107)
Contracts to government agencies	45,000	45,000	37,257	(7,743)
Legal services	150	150	-	(150)
Maintenance agreements	23,500	23,500	22,424	(1,076)
Lease/rental - office equipment	12,960	12,960	9,200	(3,760)
Fuel	600	600	-	(600)
Language line	200	200	-	(200)
Supplies and materials				
Office supplies	500	427	427	-
Custodial supplies	100	100	-	(100)
Postage	150	49	121	72
Small equipment purchases	8,000	9,767	9,320	(447)
Uniforms and shirts	6,000	6,258	6,258	-
Utilities - electric	1,500	1,500	698	(802)
Utilities - water	600	600	433	(167)
Utilities - general telephone	2,650	2,650	2,603	(47)
Maintenance and repair - communications equipment	7,100	6,975	2,818	(4,157)
Maintenance and repair - building and facilities	5,000	295	295	-
Maintenance and repair - office equipment	2,025	45	45	-
Other charges				
Bank charges	36	36	33	(3)
Dues and memberships	100	100	100	-
Insurance - building and contents	775	775	758	(17)
Licenses and fees	4,000	4,000	-	(4,000)
Premiums on surety bonds	1,025	1,025	325	(700)
Training	4,000	4,000	-	(4,000)
Travel	1,000	1,000	-	(1,000)
Total operating expenses	170,071	165,087	132,683	(32,404)
Operating income	**27,929**	**37,419**	**71,094**	**33,675**
Non-operating income (expense)				
Interest income	-	-	1,345	1,345
Net income - budgetary basis	**$ 27,929**	**$ 37,419**	**$ 72,439**	**$ 35,020**

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Lake County Emergency Communications District
Tiptonville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lake County Emergency Communications District, a component unit of Lake County, Tennessee, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 23, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lake County Emergency Communications 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 Item 2016-001 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake County Emergency Communications 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 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 responses as Item 2016-002.

Lake County Emergency Communications District's Response to Findings

Lake County Emergency Communications District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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 engagement to perform an audit 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.

Alexander Thompson Arnold PLLC

Union City, Tennessee
August 23, 2016

LAKE COUNTY EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2016

2016-001 Segregation of Duties – material weakness

Condition: Due to the size of the staff, the Lake County Emergency Communications District could not fully segregate the record-keeping, custodial and authorization functions of its internal accounting controls.

Criteria: Generally accepted accounting principles require that accounting functions be adequately segregated to ensure that the internal accounting controls are effective.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner increases when accounting functions are not adequately segregated.

Recommendation: While auditors recognize that staff size, due to funding limitations, is not adequate to fully segregate the functions mentioned above, management needs to be aware that this limitation of internal accounting controls does exist in the District.

Response: *We concur.*

2016-002 Expenditures over Budget

Condition: For the year ended June 30, 2016, the District had expenses over budget in the following line-item:

Postage	$ 72

Criteria: TCA Section 7-86-120 requires emergency communications districts to adopt and operate under an annual budget and states "no district may expend any moneys regardless of their source . . .except in accordance with a budget adopted under this section." The *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts* states that expenses must be presented at the legal level of control, which is defined to be at the line-item level.

Effect: Expenditures have been made that were not legally approved in accordance with state statute.

Recommendation: We recommend that the Board take steps to ensure that all line item amounts have been properly budgeted prior to year end.

Response: *We concur.*

LAKE COUNTY EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS
June 30, 2016

Financial Statement Findings

Finding No.	Finding Title	Status
2015-002	Expenditures over Budget (original finding #2014-001)	Repeated
2015-001	Segregation of Duties (original finding #2001-001)	Repeated

Federal Award Findings and Questioned Costs

The District was not subject to a Single Audit in the prior year.