

Jacquie Stone CPA, PSC

1045 Bucks Branch Road
Martin, Kentucky 41640

Phone (606) 285-0508
Fax (606) 285-3141

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SEP 14 2001

SECRETARY OF STATE
COMMONWEALTH OF KENTUCKY

May 8, 2001
Middlecreek Fire Protection Taxing District
Prestonsburg, Kentucky

We are pleased to confirm our understanding of the services we are to provide for Middlecreek Fire Protection Taxing District for the year ended June 30, 2001. We will audit the financial statements of the Middlecreek Fire Protection Taxing District as of and for the year ended June 30, 2001.

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles. Our audit will be conducted in accordance with generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of the Middlecreek Fire Protection Taxing District and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

We will also provide reports (that do not include opinions) on internal control related to the financial statements and compliance with laws, regulations, and the provisions or grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*.

Management Responsibilities

Management is responsible for establishing and maintaining internal control and for compliance with laws, regulations, contracts, and agreements. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, but the responsibility for the financial statements remains with you. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Audit Procedures--General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be

than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the concept of reasonable assurance and because we will not perform a detailed examination of all transactions, there is a risk that material errors, fraud, other illegal acts, or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect errors, fraud, or other illegal acts that are immaterial to the financial statements or to major programs. However, we will inform you of any material errors and any fraud that comes to our attention. We will also inform you of any other illegal acts that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Identifying and ensuring that the Middlecreek Fire Protection Taxing District complies with laws, regulations, contracts and agreements is the responsibility of management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Middlecreek Fire Protection Taxing District's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion.

Audit Procedures—Internal Controls

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinions on the Middlecreek Fire Protection Taxing District's financial statements.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. (Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level) Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform the governing body or audit committee of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any invoices selected by us for testing.

The workpapers for this engagement are the property of Jacquie Slone, CPA, PSC, and constitute confidential information. However, we may be requested to make certain workpapers available to the Commonwealth of Kentucky pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided under the supervision of Jacquie Slone. Furthermore, upon

request, we may provide photocopies of selected workpapers to the Commonwealth of Kentucky. The Commonwealth of Kentucky may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

We expect to begin our audit on approximately June 1, 2001 and to issue our reports no later than June 30, 2001. Our fee for these services will be \$ 900.00.

Government Auditing Standards require that we provide you with a copy of our most recent quality control review report. Our 1998 peer review report accompanies this letter.

We appreciate the opportunity to be of service to the Middlecreek Fire Protection Taxing District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

RESPONSE:

This letter correctly sets forth the understanding of the Middlecreek Fire Protection Taxing District.

By: Charles E. Hochstetler

Title: Sec. Treas

Date: 6-28-01

STEPHENS & LAWSON

Certified Public Accountants

August 20, 1998

To the Shareholders
Slone & Sumpter, CPA, PSC

We have reviewed the system of quality control for the accounting and auditing practice of Slone & Sumpter, CPA, PSC (the firm) in effect for the year ended March 31, 1998. Our review was conducted in conformity with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). We tested compliance with the firm's quality control to the extent we considered appropriate. These tests included a review of selected accounting and auditing engagements.

In performing our review, we have given consideration to the quality control standards for an accounting and auditing practice issued by the AICPA. Those standards indicate that a firm's quality control policies and procedures should be appropriately comprehensive and suitably designed in relation to the firm's size, organization structure, operating policies, and the nature of its practice. They state that variance in individual's performance and understanding of professional requirements or the firm's quality control policies and procedures can affect the degree of compliance with a firm's prescribed quality control policies and procedures and, therefore, the effectiveness of the system.

In our opinion, the system of quality control for the accounting and auditing practice of Slone & Sumpter, CPA, PSC in effect for the year ended March 31, 1998, has been designed in accordance with the quality control standards for an accounting and auditing practice established by the AICPA and was being complied with for the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.


Stephens & Lawson, P.S.C.

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**MIDDLECREEK FIRE PROTECTION TAX DISTRICT
TAX COLLECTION FUND
REPORT ON AUDIT OF FINANCIAL STATEMENTS
For the Year Ended December 31, 2000**

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Jacquie Stone CPA, PSC

1045 Bucks Branch Road
Martin, Kentucky 41649

Phone (606) 285-0508
Fax (606) 285-3141

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Independent Auditor's Report

To the Members of the Board
Middlecreek Fire Protection Tax District
Prestonsburg, Kentucky

We have audited the accompanying financial statements of the tax collection fund of Middlecreek Fire Protection Tax District, as of and for the year ended December 31, 2000, as listed in the table of contents. The financial statements are the responsibility of the Middlecreek Fire Protection Tax District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 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 I, the financial statements present only the tax collection fund and are not intended to present fairly the financial position and results of operations of the Middlecreek Fire Protection Tax District, in conformity with generally accepted accounting principles.

As described in Note I, the Middlecreek Fire Protection Tax District prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the tax collection fund of the Middlecreek Fire Protection Tax District as of December 31, 2000, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 15, 2001 on our consideration of the Middlecreek Fire Protection Tax District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Jacquie Stone, CPA, PSC
Martin, Kentucky
June 15, 2001

**MIDDLECREEK FIRE PROTECTION TAX DISTRICT
STATEMENT OF ASSETS, LIABILITIES AND
EQUITY - CASH BASIS
TAX COLLECTION FUND
December 31, 2000**

ASSETS

Cash	\$	11,177
Total Assets		<u>11,177</u>

LIABILITIES AND EQUITY

Fund equity		11,177
Total Liabilities and Equity	\$	<u>11,177</u>

**MIDDLECREEK FIRE PROTECTION TAX DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN EQUITY - CASH BASIS
TAX COLLECTION FUND
December 31, 2000**

Revenues

Intergovernmental revenues	\$	26,426
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Total Revenues		26,426
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Expenditures

Current

Firefighting supplies	662
Insurance	3,669
Utilities and telephone	2,976
Fuel and oil	717
Repairs and maintenance	1,833
Office supplies and postage	429
Dues	225
Professional fees	900
Treasurer's bond	432
Training	650
Uniforms	1,725
Other expense	429

Capital Outlay

Fire rescue equipment	3,693
Communications equipment	1,821
Office equipment	420
Building improvements	933
Principal and interest - fire department	8,000

Total Expenditures	29,514
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Excess of Revenues Over (Under) Expenditures	(3,088)
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Fund Equity January 1, 2000	14,265
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Fund Equity December 31, 2000	\$ 11,177
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See accompanying notes to financial statements.

MIDDLECREEK FIRE PROTECTION TAX DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN EQUITY, BUDGET AND ACTUAL - CASH BASIS
TAX COLLECTION FUND
December 31, 2000

	Budget	Actual	Favorable (Unfavorable)
<u>Revenues</u>			
Intergovernmental revenues	\$ 26,000	\$ 26,426	\$ 426
Total Revenues	26,000	26,426	426
<u>Expenditures</u>			
Insurance	3,000	3,669	(669)
Utilities and telephone	3,450	2,976	474
Fuel and oil	750	717	33
Dues	-	225	(225)
Professional fees	900	900	-
Treasurer's bond	220	432	(212)
Training	400	650	(250)
Uniforms	2,000	1,725	275
Other expense	2,530	429	2,101
Vehicle repairs and maintenance	2,800	1,358	1,442
Fire rescue equipment		3,693	
Firefighting supplies		662	
Total fire equipment, refills and supplies	2,600	4355	(1,755)
Radio equipment		1,821	
Radio repairs and supplies		225	
Total radio equipment and repairs	1,200	2,046	(846)
Office equipment		420	
Office supplies		429	
Total office supplies and expense	800	849	(49)
Building improvements		933	
Building maintenance		250	
Total building repairs and maintenance	2,000	1,183	817
Principal and interest - fire department	8,000	8,000	-
Total Expenditures	30,650	29,514	1,136
Excess of Revenues Over (Under) Expenditures	(4,650)	(3,088)	1,562
Fund Equity January 1, 2000	14,265	14,265	-
Fund Equity December 31, 2000	\$ 9,615	\$ 11,177	\$ 1,562

See accompanying notes to financial statements.

**MIDDLECREEK FIRE PROTECTION TAX DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2000**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The Middlecreek Fire Protection Tax District was established in 1996 to provide additional resources for the expansion of fire protection and rescue services in the Middlecreek area of Floyd County, Kentucky.

B. Financial Reporting Entity

The District's financial statements consist of the tax collection fund of the Middlecreek Fire Protection Tax District, and are not intended to present fairly the financial position and results of operations of the Middlecreek Voluntary Fire Department No. 718, a non-profit organization incorporated May 4, 1984.

C. Basis of Accounting

The District prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). The cash basis of accounting differs from GAAP as follows:

1. Revenues are recorded when received and expenditures are recorded when paid.
2. Equipment and facilities owned by the District are recorded as expenditures when paid and are not included in the District's assets for financial reporting purposes.

D. Budgetary control

The District formally adopts a budget for each fiscal year and maintains a budget to actual comparison of revenues and expenditures for control purposes.

II. DEPOSITS AND INVESTMENTS

The funds of the District are held in a non-interest-bearing checking account insured by the FDIC. At the year-end, the carrying amount and bank balance of the District's deposit was \$11,757 and \$11,177, respectively.

MIDDLECREEK FIRE PROTECTION TAX DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended December 31, 2000

III. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues of the District for the fiscal year are as follows:

Source

Property Taxes	\$ 18,473
Motor Vehicle Taxes	3,968
Omitted Taxes	268
Delinquent Taxes	2,350
Franchise Taxes	1,367
	<u>\$ 26,426</u>

Federal, state and local grants received by the Middlecreek Voluntary Fire Department No. 718 for fire operations are not recorded in the tax collection fund and are not included in the audited financial statements of the tax collection fund of the District.

IV. COMMITMENTS AND CONTINGENCIES

The District's financial statements include an \$8,000 budgeted expenditure of principal and interest on the fire department facility owned by the Middlecreek Voluntary Fire Department No. 718. At December 31, 2000 the unpaid balance on the existing mortgage was \$27,728. The District's 2001 budget includes a principal and interest allocation of \$8,000.

Jacquie Stone CPA, PSC

1045 Bucks Branch Road
Martin, Kentucky 41649

Phone (606) 285-0508
Fax (606) 285-3141

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

To the Members of the Board
Middlecreek Fire Protection Tax District
Prestonsburg, KY

We have audited the financial statements of the Middlecreek Fire Protection Tax District, as of and for the year ended December 31, 2000, and have issued our report thereon dated June 15, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Middlecreek Fire Protection Tax District tax collection fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. We noted certain immaterial instances of non-compliance that we have reported to management of the Middlecreek Fire Protection Tax District in a separate letter dated June 15, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Middlecreek Fire Protection Tax District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Middlecreek Fire Protection Tax District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

2000-1

Due mainly to its size, the Middlecreek Fire Protection Tax District has deficiencies in its internal control design whereby there is an absence of appropriate reviews and approvals.

Due to the inability of a small organization to adequately segregate duties, one or two persons may be responsible for a number of the following functions: opening the mail, preparing the deposit tickets,

depositing funds, selecting invoices for payment, signing checks, filing invoices, reconciling the bank account and preparing the monthly financial statements and the annual budget.

We also noted other matters involving the internal control over financial reporting that we have reported to management of Middlecreek Fire Protection Tax District in a separate letter dated June 15, 2001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we note no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the board members, management, and the Commonwealth of Kentucky. However, this report is a matter of public record and its distribution is not limited.

Jacquie Stone. CPA. YSE

Martin, Kentucky
June 15, 2001