

**BENTON COUNTY  
EMERGENCY COMMUNICATIONS DISTRICT**

**FINANCIAL STATEMENTS**

**June 30, 2011**

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
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## **INTRODUCTORY SECTION**

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT**  
**SCHEDULE OF OFFICIALS**  
June 30, 2011

Jerold Johnson – Chairman

John Smoot – Secretary/Treasurer and Interim Director of Operations

William Bell – Vice-chairman

Dwayne Presson  
Travis Pierce  
George Montgomery  
Richard Kee  
Raymond Palen

## **FINANCIAL SECTION**



Certified Public Accountants

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## Independent Auditor's Report

Board of Directors  
Benton County Emergency Communications District

We have audited the accompanying financial statements of the Benton County Emergency Communications District, a component unit of Benton County, Tennessee, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Benton County Emergency Communications District as of June 30, 2011, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section and other supplementary information section are presented for 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 our 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, we do not express an opinion or provide any assurance on it.

*Alexander Thompson Arnold PLLC*

Union City, Tennessee  
December 13, 2011

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT**  
**STATEMENT OF NET ASSETS**  
 JUNE 30, 2011

**ASSETS**

Current assets

Cash	\$716,797
Accounts receivable	7,087
Prepaid expense	<u>4,352</u>
Total current assets	728,236

Noncurrent assets

Communications equipment	116,927
Leasehold improvements	26,962
Other equipment	73,037
Furniture and fixtures	3,808
Accumulated depreciation	<u>(100,665)</u>
Total noncurrent assets	<u>120,069</u>

**Total assets** **848,305**

**LIABILITIES**

Current liabilities

Accounts payable	<u>14,341</u>
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**NET ASSETS**

Invested in capital assets	120,069
Unrestricted	<u>713,895</u>
<b>Total net assets</b>	<b><u><u>\$833,964</u></u></b>

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

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
For the Year Ended June 30, 2011

<b>Operating revenue</b>		
TECB - shared wireless charge		\$ 43,162
TECB - operational funding		160,791
Emergency telephone service charge		<u>75,793</u>
Total operating revenue		279,746
<b>Operating expenses</b>		
Contracted services		
Addressing/mapping expense	18,186	
Advertising	283	
Audit services	4,925	
Accounting services	3,600	
Engineering services	293	
Fees paid to service provider	335	
Maintenance agreement	15,125	
Mapping/database consultants	1,200	
Lease/rental - communications equipment	46,192	
Repair and maintenance - communications equipment	63	
Repair and maintenance - office equipment	380	
Supplies and materials		
Office supplies	962	
Data processing supplies	83	
Small equipment purchases	1,030	
Postage	102	
Bank service charges	96	
Utilities	1,078	
Other charges		
Dues and memberships	141	
Insurance - liability	3,049	
Legal notices	104	
Insurance - surety bonds	801	
Training	3,466	
Travel	285	
Internet charges	1,259	
Other charges - maintenance and repair	1,742	
Depreciation expense	<u>16,086</u>	
Total operating expenses		<u>120,866</u>
<b>Operating income</b>		<b>158,880</b>
<b>Non-operating revenues</b>		
Interest income	4,279	
Miscellaneous income	<u>59</u>	
Total non-operating revenues		<u>4,338</u>
<b>Net income</b>		<b>163,218</b>
Net assets - July 1, 2010		<u>670,746</u>
Net assets - June 30, 2011		<u><u>\$ 833,964</u></u>

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

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2011

<b>Cash flows from operating activities</b>	
Cash received from surcharges and other operating revenue	\$ 285,494
Cash payments to suppliers for goods and services	<u>(100,830)</u>
Net cash provided by operating activities	184,664
 <b>Cash flows from non-capital financing activities</b>	
Miscellaneous non-operating revenue	59
 <b>Cash flows from capital and related financing activities</b>	
Purchase of property, plant, and equipment	(45,412)
 <b>Cash flows from investing activities</b>	
Interest earned on investments	<u>4,279</u>
<b>Net increase in cash</b>	<b>143,590</b>
Cash - July 1, 2010	<u>573,207</u>
Cash - June 30, 2011	<u><b>\$ 716,797</b></u>

**Reconciliation of operating income to net cash provided by operating activities**

Operating income	\$ 158,880
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	16,086
Decrease in accounts receivable	5,748
Increase in prepaid expense	(2,812)
Increase in accounts payable	<u>6,762</u>
Total adjustments	<u>25,784</u>
<b>Net cash provided by operating activities</b>	<b><u>\$ 184,664</u></b>

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

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Benton County Emergency Communications District was created on August 4, 1988 by a referendum of voters in Benton 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* (TCA).

In evaluating how to define the Benton County Emergency Communications District for financial reporting purposes, management has considered whether the District is a primary government or a component unit of another primary government. The decision to be included as a component unit of another reporting entity is made by applying the criteria set forth in Governmental Accounting Standards Board Statement 14, *The Financial Reporting Entity*. The Board of Directors of the District are appointed by the County Commission. The County Commission has the authority to adjust the rates charged by the District, and the District must obtain the approval of the 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 Benton County in its financial statements.

Since the District is deemed to be a municipality under Tennessee state law, it is exempt from federal income taxes.

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

The Benton County Emergency Communications District accounts for its financial position and results of operations in accordance with generally accepted accounting principles as defined in the statements of the Governmental Accounting Standards Board (GASB) for proprietary funds. Generally accepted accounting principles for proprietary fund types are those applicable to similar businesses in the private sector, and the measurement focus is on the determination of net income, financial position, and cash flows. Proprietary fund types are accounted for on the accrual basis, whereby income is recognized as it is earned and expenses are recognized as they are incurred, whether or not cash is received or paid out at that time.

The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20 gives governments the option of applying all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its proprietary funds, unless they conflict with or contradict GASB pronouncements. The Office of the Comptroller of the Treasury requires Tennessee emergency communications districts not to implement FASB statements and interpretations issued thereafter, unless they are adopted by GASB.

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**C. Budgetary Information**

The District is required by TCA Section 7-86-120 to adopt an annual budget. For the year ended June 30, 2011, the District budgeted in accordance with generally accepted accounting principles. The legal level of control is at each line item of expense; therefore, each line item must be amended prior to expending funds. For the year ended June 30, 2011, there were several line items that exceeded budgeted amounts. However, total expenditures did not exceed total appropriations.

**D. Assets, Liabilities, and Net Assets**

**Deposits and investments**

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. State statutes authorize the System to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations by the U.S. government or its agencies, repurchase agreements as approved by the state director of local finance, and the state's local government investment pool.

**Revenues and Receivables**

The District receives its revenue from monthly fees paid by service users in the County. AT&T, the major service supplier in Benton County, and other telephone companies collect the service fees and remit the funds to the District, after retaining an administrative fee ranging from one to three percent of collections. Accounts receivable represent amounts due from the telephone companies. The District also receives a portion of the wireless phone surcharge collected by the Tennessee Emergency Communications Board (TECB). A receivable from TECB is recorded for amounts collected by the State prior to year end, but not remitted to the District until after June 30.

**Capital assets**

Capital assets are stated at cost. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life that exceeds one year. Assets consist of communications equipment, furniture and fixtures, building improvements, and other equipment, which are depreciated using the straight-line method over estimated useful lives ranging from 5-15 years.

**Net assets**

Equity is reported as net assets, which are classified into the following components as applicable:

- Invested in capital assets – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any payables that are attributable to the acquisition, construction, or improvement of those assets
- Restricted – net assets when constraints are placed on their use by external third parties or imposed by law
- Unrestricted – all other net assets that do not meet the definition of the other categories

The District elects to use restricted assets before unrestricted assets when the situation arises where either can be used.

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**Occupancy In-Kind**

Benton County provides the District with personnel, facilities and related utilities for the District's operations. No provision has been made in these financial statements to recognize any amounts incurred by the County on the District's behalf.

**Personnel**

The District has no employees. All dispatch functions are conducted by employees of Benton County.

**NOTE 2 – DETAILED NOTES ON ACCOUNTS**

**A. Deposits and investments**

As of June 30, 2011, the District had demand deposits at financial institutions in checking accounts, savings accounts, money market accounts and certificates of deposit.

Custodial Credit Risk - The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. 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. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2011, all of the District's deposits were insured or collateralized.

**B. Capital assets**

Description	Balance 7/1/10	Additions	Disposals	Balance 6/30/11
Capital assets, being depreciated				
Communications equipment	\$ 81,927	\$ 35,000	\$ -	\$ 116,927
Leasehold improvements	19,962	7,000	-	26,962
Other equipment	73,037	-	-	73,037
Furniture and fixtures	396	3,412	-	3,808
Total capital assets being depreciated	<u>175,322</u>	<u>45,412</u>	<u>-</u>	<u>220,734</u>
Less accumulated depreciation				
Communications equipment	46,136	6,463	-	52,599
Leasehold improvements	4,399	1,378	-	5,777
Other equipment	33,850	7,996	-	41,846
Furniture and fixtures	194	249	-	443
Total accumulated depreciation	<u>84,579</u>	<u>16,086</u>	<u>-</u>	<u>100,665</u>
Total capital assets, net	<u>\$ 90,743</u>	<u>\$ 29,326</u>	<u>\$ -</u>	<u>\$ 120,069</u>

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**NOTE 3 – OTHER INFORMATION**

**A. Risk Management**

The District is exposed to various risks related to general and public officials liability, officers/directors errors and omissions liability and property and casualty losses. It is the District's policy to purchase commercial insurance for these risks. Settlements have not exceeded insurance coverage in any of the prior three years.

**B. Commitments**

During the year ended June 30, 2007, the District entered into a five-year service contract with AT&T in conjunction with the purchase of equipment. The monthly service fee as of June 30, 2011, is \$3,847. If terminated, the service contract calls for a termination charge equal to the number of months remaining in the contract term multiplied by sixty percent (60%) of the monthly service fee. The District does not anticipate terminating the service contract.

Each year the District enters into a contract for mapping and address maintenance services. The contract is cancelable on 30 days notice by either party. For the year ended June 30, 2011, the fee was \$1,500 per month.

## **SUPPLEMENTARY INFORMATION SECTION**

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
BUDGETARY COMPARISON SCHEDULE**

For the Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<b>Variance Over (Under)</b>
<b>Operating revenue</b>				
TECB - shared wireless charge	\$ 36,600	\$ 36,600	\$ 43,162	\$ 6,562
TECB - operational funding	43,085	43,085	160,791	117,706
Emergency telephone service charge	<u>83,900</u>	<u>83,900</u>	<u>75,793</u>	<u>(8,107)</u>
Total operating revenue	<u>163,585</u>	<u>163,585</u>	<u>279,746</u>	<u>116,161</u>
<b>Operating expenses</b>				
Contracted services				
Addressing/mapping expense	18,000	18,000	18,186	186
Advertising	-	-	283	283
Audit services	4,600	4,600	4,925	325
Accounting services	3,600	3,600	3,600	-
Data processing services	300	300	-	(300)
Engineering services	-	-	293	293
Fees paid to service provider	350	350	335	(15)
Legal services	300	300	-	(300)
Maintenance agreement	700	13,000	15,125	2,125
Mapping/data base consultants	3,000	3,000	1,200	(1,800)
Lease/rental - communications equipment	60,500	47,500	46,192	(1,308)
Repair and maintenance - communications equipment	300	2,300	63	(2,237)
Repair and maintenance - office equipment	1,200	200	380	180
Director	24,000	24,000	-	(24,000)
Supplies and materials				
Office supplies	1,500	1,500	962	(538)
Data processing supplies	300	550	83	(467)
Small equipment purchases	400	400	1,030	630
Postage	300	300	102	(198)
Bank service charges	100	100	96	(4)
Utilities	2,200	1,200	1,078	(122)
Other charges				
Dues and memberships	250	250	141	(109)
Insurance - liability	3,100	3,100	3,049	(51)
Legal notices	-	-	104	104
Insurance - surety bonds	1,000	1,000	801	(199)
Board meeting expenses	100	100	-	(100)
Public education	1,000	1,000	-	(1,000)
Training	-	-	3,466	3,466
Travel	1,200	1,300	285	(1,015)
Internet charges	1,050	1,250	1,259	9
Other charges - maintenance and repair	-	150	1,742	1,592
Depreciation expense	<u>15,000</u>	<u>15,000</u>	<u>16,086</u>	<u>1,086</u>
Total operating expenses	<u>144,350</u>	<u>144,350</u>	<u>120,866</u>	<u>(23,484)</u>
<b>Operating income</b>	<b><u>19,235</u></b>	<b><u>19,235</u></b>	<b><u>158,880</u></b>	<b><u>139,645</u></b>
<b>Non-operating revenues</b>				
Interest income	5,100	5,100	4,279	(821)
Miscellaneous income	<u>-</u>	<u>-</u>	<u>59</u>	<u>59</u>
Total non-operating revenue	<u>5,100</u>	<u>5,100</u>	<u>4,338</u>	<u>(762)</u>
<b>Net income</b>	<b><u>\$ 24,335</u></b>	<b><u>\$ 24,335</u></b>	<b><u>\$ 163,218</u></b>	<b><u>\$ 138,883</u></b>

*See independent auditor's report*

## **INTERNAL CONTROL AND COMPLIANCE SECTION**



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Kentucky Society of Certified Public Accountants

**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  
Benton County Emergency Communications District

We have audited the financial statements of the Benton County Emergency Communications District, a component unit of Benton County, Tennessee, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Benton County Emergency Communications District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we 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 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.

Our consideration of 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and response as items 09-1 and 10-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Benton 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 response as item 10-1.

Benton County Emergency Communications District's response to the findings identified in our audit is described in the accompanying schedule of findings and response. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, and the State of Tennessee Comptroller's Office and is not intended to be and should not be used by anyone other than these specified parties.

*Alexander Thompson Arnold PLLC*

Union City, Tennessee  
December 13, 2011

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSE**

June 30, 2011

**FINDINGS RELATIVE TO THE AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**09-1 Segregation of Duties**

Condition: The secretary/treasurer of the board is the interim director of the District and handles all bookkeeping functions.

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 it is apparent that staff size is not adequate to fully segregate the accounting functions of the District, management needs to be aware that this limitation in internal control over financial reporting exists.

Response: *We concur.*

**10-1 Expenditures over Budget**

Condition: There were several line items in expenditures that exceeded the amounts budgeted.

Criteria: TCA Section 7-86-120 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: The District has made expenses not legally appropriated by the Board.

Recommendation: We recommend that the District carefully monitor its budget each month and make amendments as needed to authorize all expenditures. All final budget amendments for a current fiscal year must be approved prior to June 30.

Response: *We concur.*

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**  
June 30, 2011

**Significant Deficiencies**

09-1 Segregation of Duties – repeated