

**HARDEMAN COUNTY EMERGENCY
COMMUNICATIONS DISTRICT
(A Component Unit of Hardeman
County, Tennessee)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

**HARDEMAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT
TABLE OF CONTENTS**

Page

Introductory Section

Schedule of Officials

Financial Section

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets.....	7
Statement of Revenues, Expenses and Change in Net Assets.....	8
Statement of Cash Flows.....	9
Notes to Financial Statements.....	10

Required Supplemental Information

Pension Data.....	15
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Other Supplementary Section

Budgetary Comparison Schedule.....	16
Schedule of Expenses.....	18

Internal Control and Compliance Section

Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20
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INTRODUCTORY SECTION

HARDEMAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT

June 30, 2011

SCHEDULE OF OFFICIALS

Jerry McCord, Chairman

Betty Nuckolls, Vice-Chairman

Mary Powell, Secretary

Tony Kirk, Treasurer

Virlene Brown

Carl Gibson

Terry King

Bobby Naylor

WS Thomas

Management Official

Mary Henderson, Executive Director

Independent Certified Public Accountants

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION



Certified Public Accountants

www.atacpa.net

227 Oil Well Rd.
Jackson, TN 38305

Telephone: (731) 427-8571
Fax: (731) 424-5701

Members of

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

Independent Auditor's Report

Board of Directors
Hardeman County Emergency Communications District
Bolivar, Tennessee

We have audited the accompanying financial statements of Hardeman County Emergency Communications District (a component unit of Hardeman County, Tennessee) (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, 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 the 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 above present fairly, in all material respects, the financial position of the District as of June 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2012, 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 should be considered in assessing the results of our audit.

Board of Directors
Hardeman County Emergency Communications District
Bolivar, Tennessee

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension data on pages 3 through 6 and 18 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 supplemental information section are presented for purposes of additional analysis and are not a required part of the financial statements. The budgetary comparison schedule and the schedule of expenses are the responsibility of management and were derived from and relate 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.



Certified Public Accountants

Jackson, Tennessee
May 18, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Hardeman County Emergency Communications District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the District's financial condition is strong. The District is well within its budget and the more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets at year-end were \$753 thousand and exceeded liabilities in the amount of \$748 thousand (i.e. net assets).
- Net assets increased \$92 thousand during the current year due to additional funding received from the State,
- During fiscal year 2011, the District answered 15,713 calls and approximately 13,591 calls during 2010.
- Operating revenues were \$333 thousand, an increase from year 2010 in the amount of \$36 thousand or 12.29%.
- Operating expenses were \$251 thousand, an increase over year 2010 in the amount of \$10 thousand or 4.26%.
- The operating income for the year was \$82 thousand as compared to \$56 thousand during the 2010 fiscal year.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget and other management tools were used for this analysis. The Comprehensive Annual Financial Report is made up of four sections: 1) the introductory section, 2) the financial section, 3) the other supplementary section, and 4) the internal control and compliance section. The introductory section includes the District's directory. The financial section includes the MD&A, the independent auditor's report, the financial statements with accompanying notes, and the required supplementary information. The other supplementary section includes selected financial and operational information. The internal control section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

A Proprietary Fund is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Statement of Net Assets* presents the financial position of the District on a full accrual historical cost basis. The statement of net assets includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs. This statement also measures the District's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provides required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. A *Supplementary Schedule* comparing the budget to actual expenses is also presented.

FINANCIAL ANALYSIS

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Income and Net Assets report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District, and the changes in the net assets. Net assets are one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The District's total net assets increased by \$92 thousand and increased \$65 thousand for the fiscal years ended June 30, 2011 and 2010, respectively. The analysis below focuses on the District's net assets (Table 1) and changes in net assets (Table 2) during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 1
CONDENSED STATEMENT OF NET ASSETS

	June 30, 2011	June 30, 2010	Increase (Decrease)	
			\$	%
Current and other assets	\$ 663,228	\$ 549,676	\$ 113,548	20.66%
Capital Assets	<u>90,058</u>	<u>109,593</u>	<u>(19,534)</u>	-17.82%
Total Assets	<u>753,286</u>	<u>659,269</u>	<u>94,014</u>	14.26%
Total Liabilities	<u>5,311</u>	<u>3,279</u>	<u>2,032</u>	61.97%
Net assets	<u>\$ 747,975</u>	<u>\$ 655,990</u>	<u>\$ 91,982</u>	14.02%

Table 2
CONDENSED STATEMENT OF INCOME AND CHANGES IN NET ASSETS

	June 30, 2011	June 30, 2010	Increase (Decrease)	
			\$	%
Operating revenues	\$ 333,072	\$ 296,606	\$ 36,466	12.29%
Non-operating revenues	<u>10,095</u>	<u>19,273</u>	<u>(9,178)</u>	-47.62%
Total revenues	<u>343,167</u>	<u>315,879</u>	<u>27,288</u>	8.64%
Salaries and wages	73,933	69,091	4,842	7.01%
Employee benefits	18,505	16,315	2,190	13.42%
Contracted services	105,647	102,120	3,527	3.45%
Supplies and materials	10,792	8,797	1,995	22.68%
Other charges	17,049	19,260	(2,211)	-11.48%
Depreciation	<u>25,256</u>	<u>25,350</u>	<u>(94)</u>	-0.37%
Total expenses	<u>251,182</u>	<u>240,933</u>	<u>10,249</u>	4.25%
Change in net assets	91,985	74,946	17,039	22.74%
Beginning net assets	655,990	591,119	64,871	10.97%
Prior period adjustments	<u>-</u>	<u>(10,075)</u>	<u>10,075</u>	
Adjusted beginning net assets	<u>655,990</u>	<u>581,044</u>	<u>74,946</u>	12.90%
Ending net assets	<u>\$ 747,975</u>	<u>\$ 655,990</u>	<u>\$ 91,985</u>	14.02%

The increase in current and other assets was due to an increase in the cash and cash equivalents balance. The District did not purchase any major equipment during this fiscal year, so the decrease in capital assets was due to depreciation.

Changes in the District's net assets can be determined by reviewing the above condensed Statement of Income and Changes in Net Assets for the years. Operating revenues showed a 12.29% increase from 2010 to 2011. This increase is due to additional funding received from the TECB. The district received additional operational funding revenue and increased wireless revenue. Expenses increased from 2010 to 2011. This was due to an increase in salaries, and also an increase in the impact payments to the Bolivar Police Department. This impact payment is to supplement dispatch salaries. Ending net assets showed an increase of 14.02% over the 2 year period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

At the end of fiscal year 2011, the system had \$90 thousand (net of accumulated depreciation) invested in a broad range of District capital assets. This investment includes an office building, automobiles, equipment and various fixtures and pieces of furniture. Based on the uses of the aforementioned assets, they are classified for financial purposes as furniture and fixtures, office equipment, communication equipment and vehicles. This investment represents an overall decrease (net of increases and decreases) of \$19 thousand or 17.83% under last year.

The following table summarizes the District's capital assets, net of accumulated depreciation, and changes therein, for the year ended June 30, 2011. These changes are presented in detail in Note 4 to the financial statements.

Table 3
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	June 30, 2011	June 30, 2010	Increase (Decrease)	
			\$	%
Office building	\$ 38,743	\$ 41,167	\$ (2,424)	-5.89%
Furniture and fixtures	13,817	18,634	(4,817)	-25.85%
Office equipment	2,743	3,824	(1,081)	-28.27%
Communication equipment	34,508	42,761	(8,253)	-19.30%
Vehicles	247	3,207	(2,960)	-92.30%
Total liabilities	<u>\$ 90,058</u>	<u>\$ 109,593</u>	<u>\$ (19,535)</u>	<u>-17.83%</u>

District plans on using existing financial resources to keep upgrading existing systems and adding new systems where it sees fit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District expects the wireless money to continue to increase this year, while the landline funds will most likely continue to decline. The District is expecting to receive \$183,791 in operational funding from the State.

The District is also in the process of consolidating dispatch. The City of Bolivar and the County have both approved to consolidate into one location, which will allow all dispatching to come from the same location instead of transferring calls. Upon the receipt of a signed contract between the city and county, we will be looking at purchasing the new Next Gen 911 equipment. The TECB will reimburse a portion of this expense, and therefore, must approve the purchase. The remaining costs will come from reserves.

The Board has also approved paying the Bolivar Police Department \$2,500 each month in Impact payment, which will supplement dispatch salaries.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the Executive Director of the Hardeman County Emergency Communications District, 120 N. Washington, Bolivar, TN 38008.

HARDEMAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF NET ASSETS
June 30, 2011

Assets

Current Assets

Cash and cash equivalents	\$	592,816
Certificate of deposits		59,490
Accounts receivable		9,349
Accrued interest receivable		76
Prepaid expenses		<u>1,497</u>

Total current assets		<u>663,228</u>
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Capital Assets

Office building		72,671
Furniture and fixtures		42,210
Office equipment		11,618
Communications equipment		172,321
Vehicles		<u>14,799</u>

Total capital assets		313,619
Less - accumulated depreciation		<u>(223,561)</u>

Net capital assets		<u>90,058</u>
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Total assets		<u>753,286</u>
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Liabilities

Current Liabilities

Accounts payable		660
Compensated absences payable		<u>4,651</u>

Total liabilities		<u>5,311</u>
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Net Assets

Investment in capital assets		90,058
Unrestricted net assets		<u>657,917</u>

Total net assets	\$	<u>747,975</u>
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The accompanying notes are an integral part of the financial statements.

**HARDEMAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS**

For the Year Ended June 30, 2011

Operating Revenues

Emergency telephone service charge	\$ 98,926
State emergency communications board - shared wireless charge	73,355
State emergency communications board - operational funding	<u>160,791</u>
Total operating revenues	<u>333,072</u>

Operating Expenses

Salaries and wages	73,933
Employee benefits	18,505
Contracted services	105,647
Supplies and materials	10,792
Other charges	17,049
Depreciation	<u>25,256</u>

Total operating expenses 251,182

Operating income (loss) 81,890

Non-Operating Revenues (Expenses)

Interest income	<u>10,095</u>
Total non-operating revenues	<u>10,095</u>

Change in net assets **91,985**

Net Assets, July 1, 2010 655,990

Net Assets, June 30, 2011 \$ 747,975

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

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

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash received from telephone companies and state	\$ 332,603
Cash paid to suppliers of goods and services	(133,669)
Cash paid for employees services	(90,460)
Net cash provided by operating activities	<u>108,474</u>
 Cash Flows from Capital and Related Financing Activities:	
Acquisition of fixed assets	<u>(5,720)</u>
Net cash provided by capital and related financing activities	<u>(5,720)</u>
 Cash Flows from Investing Activities:	
Purchase of investments	(59,494)
Sale of investments	58,344
Interest on investments	10,095
Net cash provided by investing activities	<u>8,945</u>
 Net increase in cash and cash equivalents	 111,699
Cash and Cash Equivalents, July 1, 2010	<u>481,117</u>
Cash and Cash Equivalents, June 30, 2011	<u><u>592,816</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	81,890
Adjustments to reconcile operating income to net cash used for operating activities:	
Depreciation	25,256
Changes in assets and liabilities:	
Accounts receivable	(469)
Prepays	(235)
Accounts payable	54
Compensated absences	1,978
Net cash provided by operating activities	<u><u>\$ 108,474</u></u>

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

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

June 30, 2011

NOTE 1 - ORGANIZATION AND REPORTING ENTITY

The Hardeman County Emergency Communications District (a component unit of Hardeman County, Tennessee) (the District) was established by voter referendum in November 1988, and the assessment of service fees began November 1989.

The purpose of the District is to provide a simplified means of securing emergency services by telephone to those persons living in Hardeman County, Tennessee.

The District is considered a component unit of Hardeman County because the Board of Directors of the District is appointed by the County Commission; the County Commission has the authority to adjust the rates charged by the District; and the County Commission must approve any debt issued by the District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements have been prepared in conformity with generally accepted accounting principles as set forth in the pronouncements of the *Governmental Accounting Standards Board (GASB)*, *Financial Accounting Standards Board (FASB) Statements and Interpretations*, *Accounting Principle Board (APB) Opinions*, and *Accounting Research Bulletins (ARBs)*, issued on or before November 30, 1989. After this date the District has elected to apply only the GASB pronouncements. The following is a summary of the more significant accounting policies.

A. Basis of Accounting:

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with this activity are included on their statement of position. Enterprise fund operating statements present increases (revenues) and decreases (expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The District is considered an enterprise fund, which uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

B. Deposits and Investments:

Cash and cash equivalents include amounts in demand deposits as well as deposits with original maturities of three months or less.

State statutes allow investments in obligations of the U.S. Treasury, agencies, instrumentalities and obligations guaranteed as to principal and interest of the United States or any of its agencies, repurchase agreements, the Tennessee Local Government Investment Pool and certificates of deposit.

HARDEMAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

C. Accounts Receivable and Credit Risk:

Accounts receivable represents amounts due from AT&T, Access, Z-Tel Communications, Xspedius LLC, MCI Worldcom.

D. Capital Assets:

The capital assets are recorded at historical cost. Maintenance repairs and minor renewals are expensed as incurred.

Depreciation has been provided over the estimated useful lives of the fixed assets by the straight-line method. The estimated useful lives are as follows:

Buildings	30 Years
Equipment, Furniture & Fixtures	5 to 7 Years
Vehicles	5 Years

E. Budgetary Compliance:

The District adopts a budget in accordance with the requirements of the Tennessee Emergency Communication Board and the Tennessee Code Annotated § 7-86-120. This budget is adopted on a other comprehensive basis of accounting, which is not in accordance with generally accepted accounting principals. The budgetary basis of accounting includes expenditures for fixed assets and reduction of principal on long-term debt, but does not include depreciation. Expenditures are required to be within budgetary limits at the line item level of control.

F. Compensated Absences:

The District allows full-time employees 8 hours of vacation per month for 1-10 years of service, and 12 hours per month for 10-20 years of service. The vacation days will have monetary value, and may be accrued; however, maximum accrual is 24 days for 1-10 years of service and 30 days for 10-20 years of service. A liability is reflected in the financial statements for \$4,651.

The District allows employees to accrue 8 hours per month sick leave. These days can be accrued; however, they have no monetary value except for the purpose granted, or at time of retirement. Therefore, no liability is reflected in the financial statements.

G. Net Assets:

Net Assets are classified for reporting purposes as unrestricted and invested in capital assets. There re currently no restrictions on net assets.

NOTE 3 – CASH AND INVESTMENTS

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described below. State statute requires 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. District to invest in bonds, notes or

HARDEMAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

State statutes also authorize the 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, the state pooled investment fund, and mutual funds. 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, the entire cash balance of the District's bank balance was covered by federal depository insurance.

NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the period from July 1, 2010 to June 30, 2011 were:

	Beginning			Ending
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital assets being depreciated				
Office building	\$ 72,671	\$ -	\$ -	\$ 72,671
Furniture and fixtures	42,210	-	-	42,210
Office equipment	11,618	-	-	11,618
Communications equipment	166,601	5,720	-	172,321
Vehicles	<u>14,799</u>	<u>-</u>	<u>-</u>	<u>14,799</u>
Total capital assets being depreciated	<u>307,899</u>	<u>5,720</u>	<u>-</u>	<u>313,619</u>
Less accumulated depreciation				
Office building	31,504	2,422	-	33,926
Furniture and fixtures	23,576	4,818	-	28,394
Office equipment	7,794	1,082	-	8,876
Communications equipment	123,840	13,973	-	137,813
Vehicles	<u>11,592</u>	<u>2,960</u>	<u>-</u>	<u>14,552</u>
Total accumulated depreciation	<u>198,306</u>	<u>25,255</u>	<u>-</u>	<u>223,561</u>
Total capital assets, net	<u>\$ 109,593</u>	<u>\$(19,535)</u>	<u>\$ -</u>	<u>\$ 90,058</u>

NOTE 5 - COMMITMENTS

The District has contracted with AT&T for the lease of equipment and the provision of services related to the operation of the system. The contract is an operating lease and is cancelable on 30 days notice by any party. The monthly obligation under the contract is \$5,029.

NOTE 6 - FUNDING SOURCES

Funds for operations are provided by monthly fees from service users in Hardeman County and by the Tennessee Emergency Communications Board. Service suppliers in Hardeman County collect the service fees and remit the funds to the District. The service suppliers retain one percent of the collections as an administrative fee.

The State remits a percentage of its shared wireless charges based on the District's population.

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

June 30, 2011

NOTE 7 -RETIREMENT PLAN

Plan Description: Employees of the District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefits is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>

Funding Policy: The District requires employees to contribute 5.0 percent of earnable compensation.

The District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 15.38% percent of annual covered payroll. The contribution requirement of plan members are set by state statute. Contribution requirements for the District are established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost: For the year ending June 30, 2011, the District's annual pension cost of \$11,067 to TCRS was equal to the District's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 17 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

HARDEMAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Trend Information

Fiscal Year <u>Ending</u>	Annual Pension cost <u>(APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
June 30, 2011	\$ 11,067	100%	\$ -
June 30, 2010	9,724	100%	\$ -
June 30, 2009	10,867	100%	\$ -

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 55.79 percent funded. The actuarial accrued liability for benefits was \$0.2 million, and the actuarial value of assets was \$0.1 million, resulting in a unfunded actuarial accrued liability (UAAL) of \$.1 million, and the ratio of the UAAL to the covered payroll was 161.13 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

Actuarial Valuation Date	Actuarial Value of <u>Plan Assets</u> <u>(a)</u>	Actuarial Accrued Liability <u>(AAL)-Entry Age</u> <u>(b)</u>	Unfunded AAL <u>(UAAL)</u> <u>(b)-(a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a percentage of <u>Covered Payroll</u> <u>((b-a)/c)</u>
July 1, 2009	\$ 126,000	\$ 227,000	\$ 10,000	55.79%	\$ 62,000	161.13%
July 1, 2007	\$ 108,000	\$ 137,000	\$ 29,000	78.83%	\$ 73,000	39.73%

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2011, the District purchased commercial insurance for all the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

REQUIRED SUPPLEMENTAL INFORMATION

HARDEMAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT
PENSION DATA
 June 30, 2011

Schedule of Funding Progress

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1) / (2)	Covered Payroll	UAAL as a Percentage of Covered Payroll (3) / (5)
7/1/2009	\$126,000	\$227,000	\$100,000	55.79%	\$62,000	161.13%
7/1/2007	\$108,000	\$179,000	\$ 71,000	60.34%	\$73,000	97.26%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method was a change made during the year and therefore only the most current year is presented.

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

The other supplementary information section of this report includes information not required to be included in the financial statements and is provided for the purpose of additional analysis.

**HARDEMAN 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>	<u>Variance- Over (Under)</u>
Revenues				
Emergency telephone service charge	\$ 105,000	\$ 96,000	98,481.00	\$ 2,481
State emergency communications board	47,000	47,000	73,355.00	26,355
State emergency communications board- operational funding	<u>160,791</u>	<u>160,791</u>	<u>160,791.00</u>	<u>-</u>
Total revenues	<u>312,791</u>	<u>303,791</u>	<u>332,627.00</u>	<u>28,837</u>
Expenditures				
Salaries and wages				
Salary director	41,300	41,300	41,280.00	(20)
Salary administrative personnel	30,300	30,300	30,255.00	(45)
Payroll expenses	420	420	420.00	-
Employee benefits				
Social security	8,500	8,500	4,461.00	(4,039)
Medicare	2,281	2,281	1,043.00	(1,238)
Medical insurance	200	200	163.00	(37)
Dental insurance	560	570	564.00	(6)
Disability insurance	2,000	2,000	1,207.00	(793)
Retirement contributions	11,075	11,075	11,067.00	(8)
Contracted services				
Addressing/mapping expense	10,000	10,000	5,349.00	(4,651)
Advertising	1,200	1,200	110.00	(1,090)
Audit service	4,100	4,100	3,875.00	(225)
Accounting	500	500	45.00	(455)
Data processing services	750	850	815.00	(35)
Fees paid to service providers	25,000	25,000	18,480.00	(6,520)
Impact payments	30,000	30,000	30,000.00	-
Janitorial Services	1,300	1,300	1,000.00	(300)
Legal services	1,000	1,000	450.00	(550)
Maintenance agreement	450	450	-	(450)
Mapping/Data base consult	1,000	1,000	-	(1,000)
Pest control	250	250	220.00	(30)
Communications equipment rental	46,000	46,000	41,868.00	(4,132)
Repair and maintenance				
Communications equipment	1,500	1,500	254.00	(1,246)
Buildings and facilities	3,000	3,000	1,113.00	(1,887)
Office equipment	500	500	220.00	(280)
Vehicles	3,000	3,000	153.00	(2,847)
Fuel & vehicles	2,000	2,000	1,331.00	(669)
Supplies and materials				
Office supplies	2,000	2,000	1,967.00	(33)
Data processing supplies	500	500	474.00	(26)
Postage	325	325	240.00	(85)
	<i>See the independent auditor's report.</i>			

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

For the Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance- Over (Under)
Expenditures				
Other charges				
Small equipment purchases	1,000	1,000	280	(720)
Utilities	5,200	5,200	2,844	(2,356)
Telephone	5,300	5,300	3,823	(1,477)
Cell Phone	2,500	2,500	1,481	(1,019)
Board meeting expenses	2,000	2,000	459	(1,541)
Dues and memberships	2,500	2,500	1,714	(786)
Insurance				
Workers' comp	1,000	1,000	201	(799)
Liability	1,500	1,500	727	(773)
Building and contents	3,000	3,000	2,894	(106)
Vehicles	1,900	1,900	1,076	(824)
Premiums on surety bonds	2,000	2,000	897	(1,103)
Public education	500	590	590	-
Training expenses	4,000	4,000	25	(3,975)
Travel expenses	10,000	10,000	6,804	(3,196)
Internet charges	2,100	2,100	1,799	(301)
Capital expenditures	5,000	5,810	5,810	-
 Total expenditures	280,511	281,521	229,848	(51,673)
 Operating income - budgetary basis	32,280	22,270	102,779	80,509
 Other Revenues (expenditures)				
Interest income	6,000	6,000	10,071	4,071
 Change in net assets - budgetary	\$ 38,280	\$ 28,270	112,850	84,580
 Reconciliation to GAAP				
Adjustments For:				
Revenues to accrual basis			445	
Expenses to accural basis			(1,798)	
Depreciation expense			(25,256)	
Reclassification of capital expenditures to fixed assets			5,720	
Interest accrual			24	
Change in net assets			91,985	

See the independent auditor's report.

HARDEMAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF EXPENSES

For the Year Ended June 30, 2011

Salaries and wages	
Salary director	\$ 42,661
Salary administrative personnel	30,852
Payroll expenses	420
	<u>\$ 73,933</u>
Employee benefits	
Social security	\$ 4,461
Medicare	1,043
Medical insurance	163
Dental insurance	564
Disability insurance	1,207
Retirement contributions	11,067
	<u>\$ 18,505</u>
Contracted services	
Addressing/mapping expense	\$ 5,774
Advertising	110
Audit service	3,875
Accounting	45
Data processing services	815
Fees paid to service providers	18,480
Impact payments	30,000
Janitorial Services	1,000
Legal services	450
Pest control	220
Communications equipment rental	41,868
Repair and maintenance	
Communications equipment	254
Buildings and facilities	962
Office equipment	220
Vehicles	153
Fuel & vehicles	1,421
	<u>\$ 105,647</u>

See the independent auditor's report.

**HARDEMAN COUNTY EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF EXPENSES**

For the Year Ended June 30, 2011

Supplies and materials	
Office supplies	\$ 1,651
Data processing supplies	474
Postage	240
Small equipment purchases	280
Utilities	2,844
Telephone	3,823
Cell Phone	1,481
	<u>\$ 10,793</u>
Other charges	
Board meeting expenses	\$ 466
Dues and memberships	1,714
Insurance	
Workers' comp	201
Liability	727
Building and contents	2,870
Vehicles	1,067
Premiums on surety bonds	695
Public education	590
Training expenses	25
Travel expenses	6,804
Internet charges	1,799
Non-capitalized equipment	90
	<u>\$ 17,048</u>

See the independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



Certified Public Accountants

www.atacpa.net

227 Oil Well Rd.
Jackson, TN 38305

Telephone: (731) 427-8571
Fax: (731) 424-5701

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Hardeman County Emergency Communications District
Bolivar, Tennessee

We have audited the financial statements of Hardeman County Emergency Communications District (a component unit of Hardeman County, Tennessee) (the District) as of and for the year ended June 30, 2011, and have issued our report thereon dated May 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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.

Board of Directors
Hardeman County Emergency Communications District
Bolivar, Tennessee

Compliance and Other Matters

As a 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*.

This report is intended solely for the information of the District's Board of Directors, management and the Comptroller of the Treasury, State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Alexander Thompson Arnold, PLLC". The signature is written in a cursive, flowing style.

Certified Public Accountants

Jackson, Tennessee
May 18, 2012