

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

**EMERGENCY COMMUNICATIONS
DISTRICT OF BEDFORD COUNTY**
(a component unit of Bedford County, Tennessee)

Shelbyville, Tennessee
June 30, 2012

WINNETT
*A*ssociates, PLLC

Certified Public Accountants and Consultants

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ROSTER OF BOARD OF DIRECTORS AND MANAGEMENT OFFICIALS
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY
(a component unit of Bedford County, Tennessee)

June 30, 2012

BOARD OF DIRECTORS:

Mark Thomas - Chairman

Curt Cobb - Vice Chairman

Chris White – Secretary - Treasurer

Tony Barrett

Roger Hawks

Earl Adcock

Scott Johnson

Chad Graham

James Wilkerson

MANAGEMENT OFFICIALS:

Jim Miller, Interim Director

EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2012

As management of the Emergency 911 Communications District of Bedford County (hereinafter referred to as the *District*), we offer readers of the *District's* financial statements this narrative overview and analysis of the *District's* performance during the fiscal year ending June 30, 2012. Please read this discussion in conjunction with the *District's* financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes the management's discussion and analysis report, the independent auditor's report and the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the *District* report information of the *District* using accounting methods similar to those used by private sector companies. These statements offer both short-term and long-term financial information about its activities. The Statement of Net Assets includes all of the *District's* assets and liabilities and provides information about where the *District* has invested its resources (assets) and the obligations to the *District's* creditors (liabilities).

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the *District's* operations over the past year and can be used to determine whether the *District* has successfully recovered all of its operating costs through the receipt of its pro-rata share of surcharges and fees.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where cash comes from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the *District's* finances is, "Is the District better off financial or has its condition worsened as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the *District's* activities in a way that will help answer this question. These statements report the net assets of the *District* and the changes in them. One can think of the *District's* net assets-the difference between assets and liabilities-as one way to measure financial health and financial position. Over time, increases and decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. A summary of the *District's* net assets and changes in them is presented on the following page.

Condensed Statement of Net Assets

	June 30, 2012	June 30, 2011	<i>Differences</i>
Current and other assets	\$ 405,599	\$ 349,106	\$ 56,493
Capital assets	<u>746,929</u>	<u>852,634</u>	<u>(105,705)</u>
Total assets	<u>\$1,152,528</u>	<u>\$1,201,740</u>	<u>\$ (49,212)</u>
Long-term liabilities outstanding	\$ -	\$ 30,704	\$ (30,704)
Current liabilities	<u>57,653</u>	<u>150,588</u>	<u>(92,935)</u>
Total liabilities	<u>\$ 57,653</u>	<u>\$ 181,292</u>	<u>\$ (123,639)</u>
Net assets:			
Invested in capital assets, net of debt	\$ 716,225	\$ 704,026	\$ 12,199
Unrestricted	<u>378,650</u>	<u>316,422</u>	<u>62,228</u>
Total net assets	<u>\$1,094,875</u>	<u>\$1,020,448</u>	<u>\$ 74,427</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	June 30, 2012	June 30, 2011	<i>Differences</i>
Revenues:			
Operating revenues	\$ 574,247	\$ 557,169	\$ 17,078
Non-operating revenues	<u>40,860</u>	<u>22,151</u>	<u>18,709</u>
Total revenues	<u>\$ 615,107</u>	<u>\$ 579,320</u>	<u>\$ 35,787</u>
Expenses:			
Depreciation expense	\$ 122,266	\$ 123,950	\$ (1,684)
Other operating expense	412,178	463,162	(50,984)
Non-operating expense	<u>6,236</u>	<u>22,306</u>	<u>(16,070)</u>
Total expenses	<u>\$ 540,680</u>	<u>\$ 609,418</u>	<u>\$ (68,738)</u>
Change in net assets	\$ 74,427	\$ (30,098)	\$ 104,525
Beginning net assets	<u>1,020,448</u>	<u>1,050,546</u>	<u>(30,098)</u>
Ending net assets	<u>\$1,094,875</u>	<u>\$1,020,448</u>	<u>\$ 74,427</u>

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

As can be seen from the above summarized financial information, the *District's* net assets have decreased approximately \$74,427 during the year ended June 30, 2012. There was a decrease in revenue of \$35,787 and total expenses increased by \$68,738.

THE DISTRICT'S NET ASSETS

The *District* completed the year with net assets of \$1,094,875, which is approximately \$74,427 more than the prior year's ending net assets of \$1,020,448.

BUDGETARY HIGHLIGHTS

The *District* adopts an annual operating budget which includes proposed expenses and the means for paying these expenses. As conditions change during the year the budget may be amended to prevent budget overruns.

Income received from the collections of residential phone lines was \$23,633 less than the budgeted income. However, state shared wireless income and income from private carriers due to cell phone use increased approximately \$14,809. Shared wireless charges are fees that are difficult to estimate.

Additionally, the *District* has joined other 911 Districts across the State of Tennessee in a class-action suit against AT&T to determine if AT&T has intentionally misreported its number of land lines, specifically in the proliferation of high-speed T-1 lines and fiber optic products which allow for dozens of telephone numbers per line. There could be a correction of the steep downward trend of collections if the suit is thus proven.

CAPITAL ASSETS

The *District's* investment in capital assets amounts to \$1,445,121 with accumulated depreciation of \$698,192. Capital assets include the capital leases, communication equipment, building improvements, and communication software upgrades.

LONG-TERM LIABILITIES

The *District* had \$30,704 in capital lease obligations outstanding as of June 30, 2012, compared with \$148,608 as of June 30, 2011. These leases were entered into for the purchase of communication equipment.

ECONOMIC FACTORS AND FUTURE NEEDS

The main economic factor facing the *District* is the decrease in revenue generated from landline telephones. Many residents now use cellular telephones for the residential lines. While the increase in cellular telephone use is general revenue, only a portion of that revenue is being returned to each 911 District under the current system being used by the state for distributing shared wireless fees. This has become a problem in estimating revenue for budget preparation. However, recent reports from telephone companies indicate revenue may be stabilizing and may remain at a more manageable level in the future. This was true for the budget ending June 30, 2012 as actual emergency telephone surcharge revenue was short of the budget by \$17,308.

The *District* is continuing to work with the Bedford County Property Assessor's Office, Shelbyville Power Systems, City of Shelbyville, and Bedford County Utility to keep the Geographic Information System (GIS) up to date. The goal of this GIS project is to continue to make available mass amounts of data in forms of maps and layers that can be added and subtracted at any time.

After a change in management, the *District's* Board of Directors learned that this vitally important GIS database was riddled with errors. The Board hired a consulting firm to correct the database, restore TIPS compliancy, and develop policies to keep the database free from errors. The Board is also looking at options for the eventual management of this key component of public safety dispatching and government operations.

There is virtually no limit to the kind of information that can be placed in a GIS layer, as long as it has a geographic reference point. This mass amount of information has many uses in emergency situations such as locations of fire hydrants, routing for emergency response, road closures, and cutoff locations of gas, water and power needs.

The Bedford County Communication Center is no longer utilizing the EZ911 GIS mapping because the software was found not to be compatible with other GIS databases and not sufficient for critical government operations. The Center has since purchased ESRI ArcGIS 9.2 which is the same software used by our State Government and the majority of counties and municipalities across the state.

Our Center is currently not TIPS (Tennessee Information Public Safety) compliant. Being TIPS compliant (Tennessee Information Public Safety) is a very important part of NG911 (Next Generation) in being able to better locate a cellular telephone caller. Also, the Center has lost its TIPS and GIS (Geographic Information System) revenue in the amount of \$19,070 and would not qualify for revenue that the *District* will receive from the State 911 Board in the amount of \$205,091 due to the Viper phone controller not meeting the NG911 requirements. Once the controller is upgraded to NG911 compliance and errors in the GIS database have been corrected and the database is determined to be TIPS compliant, the State will retroactively distribute those lost funds to the *District*.

The time is rapidly approaching where government agencies and citizens will have access to this information 24/7 from the home or office whenever the need arises. Funding for the *District's* cost related to the GIS mapping is provided through an annual maintenance GIS grant and NG911 (Next Generation) revenue for being TIPS (Tennessee Information Public Safety) compliant. The funding is applied for through the Tennessee Emergency 911 Communications Board.

All Districts in the State are now facing the new NG911 (next generation 911). This is a system that will allow callers to send text messages and pictures messaging directly to the 911 Centers. This will be an IP (internet protocol) system. In addition to the commonly perceived added benefits of such an enhancement, the biggest advance will be in the enhanced abilities of hearing and sight impaired callers to access the 911 system. The Bedford County 911 Communication Center recently installed an IP based system, so that the *District* will be partially ready when the state-wide system becomes available.

PLANNED PURCHASES FOR THE BUDGET YEAR 2012/2013

The *District's* Board of Directors approved an upgrade for the Center's CAD (Communicator Aid Dispatch), in order for the Center to have AVL (Automatic Vehicle Location) for the public agencies that have laptops in their units. The units will be able to utilize CAD as well as this will allow the public agencies to have access to all information that the dispatchers input into the Center's CAD and the units will be able to add additional information. The units will have access to the same mapping system that is in the 911 Center.

The Bedford County 911 Center has recently completed installation of its NCIC (National Crime Information Center) terminal through TBI (Tennessee Bureau of Investigation). This is allowing the 911 dispatcher to query vehicle license tags, etc for the law enforcement agencies. By centralizing the data center, we increased the speed and efficiency of getting vital information to the public safety officers and eliminate the need for redundancy at other offices.

The Bedford County 911 Center is also installing a computer and large format monitors in order for the Center to have access to all the video surveillance cameras in the school system. These can be accessed during school emergencies or training exercises and allows dispatchers to see and direct first responders to critical incidents as they occur.

We have received the Homeland Security Grant money for the purchase of an emergency Event Notification System and a Severe Weather Alert Notification System. This will allow the Bedford County Emergency Communication Center to be able to notify the citizens of Bedford County of any disasters or severe weather in Bedford County. The citizens of Bedford County now have the option to receive these notifications by signing up for them and receive the notifications by landline phone, cell phone, email, and pagers.

As an addition to the emergency Event Notification System, our Board also authorized membership for Bedford County citizens to participate in reverse 911. This system allows subscribers to enter important or critical information about their selves into a 911 database so that their file displays on the call takers screen when a call is received from a number they designate in the reverse 911 system. Data such as current prescriptions or blood disorders can be entered into the system so first responders will have the information when they begin treatments.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Emergency Communications District of Bedford County
Shelbyville, Tennessee

We have audited the accompanying statement of net assets of Emergency Communications District of Bedford County, a component unit of Bedford County, Tennessee, as of June 30, 2012, and the related statements of revenues, expenses and changes in fund net assets, and cash flows for the year then ended. These financial statements are the responsibility of the management of Emergency Communications District of Bedford County. 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 above present fairly, in all material respects, the respective financial position of Emergency Communications District of Bedford County as of June 30, 2012, and the respective changes in financial position and 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 November 1, 2012, on our consideration of Emergency Communications District of Bedford County's internal control over financial reporting and on our tests on its compliance with certain provision 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 Emergency Communications District of Bedford County's financial statements as a whole. The introductory section and the supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory section and supplementary information have 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 them.

Winnett Associates, LLC

November 1, 2012

STATEMENT OF NET ASSETS
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY
(a component unit of Bedford County, Tennessee)

June 30, 2012

<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 311,528
Accounts receivable	29,517
Due from Tennessee Emergency Communications Board	17,355
Prepaid expenses	47,099
TOTAL CURRENT ASSETS	405,499
<u>CAPITAL ASSETS</u>	
Building and improvements	242,481
Furniture and fixtures	90,188
Office equipment	67,905
Communications equipment	855,833
Vehicles	45,150
Other capital assets	143,564
	1,445,121
Less: accumulated depreciation	698,192
	746,929
<u>OTHER ASSETS</u>	
Security deposits	100
TOTAL ASSETS	1,152,528
<u>LIABILITIES AND NET ASSETS</u>	
<u>CURRENT LIABILITIES</u>	
Accounts payable	3,274
Compensated absences payable	14,160
Payroll deductions payable	654
Due to primary government	8,861
Capital lease obligations	30,704
TOTAL CURRENT LIABILITIES	57,653
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	716,225
Unrestricted	378,650
TOTAL NET ASSETS	\$ 1,094,875

The accompanying notes are an integral part of this financial statement.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

Year ended June 30, 2012

OPERATING REVENUES

Emergency telephone service charge	\$ 299,944
Tennessee Emergency Communications Board-shared wireless charge	104,880
Tennessee Emergency Communications Board-operational funding	167,173
Other operating revenues	<u>2,250</u>
TOTAL OPERATING REVENUES	574,247

OPERATING EXPENSES

Salaries and Wages:	
Director	55,017
Administrative personnel	<u>7,285</u>
Total Salaries and Wages	62,302

Employee Benefits:

Social security	1,245
Medicare	291
Unemployment compensation	474
Government fees	<u>231</u>
Total Employee Benefits	2,241

Contracted Services:

Addressing/Mapping expenses	5,003
Advertising	141
Audit services	6,900
Administrative fees-service charges	9,007
Contracts with government agencies	104,168
Fees paid to service providers	36,129
Legal services	6,000
Maintenance agreements	88,076
NCIC/TBI/TIES expenses	10,472
Pest control	1,015
Lease/rental-communications equipment	50
Lease/rental-furniture and fixtures	499
Maintenance and repairs-communications equipment	2,662
Maintenance and repairs-buildings and facilities	3,547
Maintenance and repairs-office equipment	413
Maintenance and repairs-vehicles	22
Fuel-vehicles	1,423
Other contracted services	<u>127</u>
Total Contracted Services	275,654

The accompanying notes are an integral part of this financial statement.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (continued)

EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

Year ended June 30, 2012

Supplies and Materials:	
Office supplies	758
Custodial supplies	1,236
Postage	841
Small equipment purchases	2,446
Uniforms and shirts	3,915
Utilities-electric	14,826
Utilities-gas	756
Utilities-general telephone	12,430
Utilities-cell phone and pagers	4,803
Other supplies and materials	<u>1,133</u>
Total Supplies and Materials	43,144

Other Charges:	
Board meeting expenses	799
Dues and memberships	1,658
Employee testing and exams	173
Insurance-workers compensation	2,133
Insurance-buildings and contents	6,190
Insurance-vehicles	1,249
Legal notices	648
Premiums on surety bonds	997
Public education	132
Training expenses	2,633
Travel expenses	10,255
Internet charges	<u>1,970</u>
Total Other Charges	28,837

Depreciation Expense	<u>122,266</u>
TOTAL OPERATING EXPENSES	<u>534,444</u>
OPERATING INCOME	<u>39,803</u>

NON OPERATING REVENUES (EXPENSES):	
Interest income	102
Tennessee Emergency Communications Board-grants and reimbursements	40,758
Interest expense	<u>(6,236)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>34,624</u>
CHANGE IN NET ASSETS	74,427

NET ASSETS-BEGINNING OF PERIOD	1,034,467
PRIOR PERIOD RESTATEMENT	<u>(14,019)</u>
NET ASSETS-END OF PERIOD	<u>\$ 1,094,875</u>

The accompanying notes are an integral part of this financial statement.

STATEMENT OF CASH FLOWS
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

Year ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from surcharges and other revenues	\$ 573,617
Cash payments to suppliers for goods and services	(409,185)
Cash payments for payroll, taxes, and related benefits	<u>(23,118)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	141,314

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Grants and reimbursements	40,758
Principal paid on lease obligations	(117,904)
Interest paid on lease obligations	(6,236)
Acquisition of capital assets	<u>(16,561)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(99,943)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	<u>102</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	102

NET INCREASE IN CASH	41,473
CASH, JULY 1, 2011	<u>270,055</u>
CASH, JUNE 30, 2012	<u><u>\$ 311,528</u></u>

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 39,803
Adjustments to reconcile operating income to net cash flows from operating activities -	
Depreciation	122,266
Change in assets and liabilities:	
Accounts receivable - fees	423
Due from Tennessee Emergency Communications Board	(1,054)
Prepaid expenses	(14,390)
Accounts payable	(1,567)
Payroll deductions payable	(784)
Compensated absences payable	141
Due to primary government	<u>(3,524)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 141,314</u></u>

CASH PAID DURING THE YEAR FOR INTEREST	<u><u>\$ 6,236</u></u>
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The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information

On May 15, 1984, the Tennessee state legislature approved the "Tennessee Emergency Communications District Law" (Acts 1984, ch. 867) which enables a county, upon approval by voters, to create a district to provide local emergency telephone service. Subsequently, in July, 1987, the county legislative body of Bedford County, Tennessee approved the establishment of a district for their county, the Emergency Communications District of Bedford County (the "District"). As provided by the Act, the District operates as a governmental organization through the directives of a nine-member board of directors and provides enhanced 9-1-1 emergency telephone services for its service area. The directors serve without compensation for terms of three to four years.

Financial Reporting Entity – Component Unit

As specified and described by Standard 14 of the Governmental Accounting Standards Board (GASB), the District is a component unit of the primary government of Bedford County, Tennessee. The District reports its financial information separately from Bedford County; however, the District's financial information should also be discretely presented by the County in its financial report.

Legally, the District is a separate governmental entity that has considerable legal, financial and administrative autonomy. However, as the governing board is not elected but instead is entirely appointed by the Bedford County mayor and approved by the Bedford County commission, the District cannot be a primary government. Instead it qualifies as a component unit according to the directives of GASB.

GASB 14 specifies that component units must be legally separate organizations that have financial accountability to a primary government. Financial accountability exists prima facie if a special-purpose government is not fiscally independent. GASB states that to be fiscally independent, the government has to have the authority to do all of three activities. Two of these are to issue bonded debt without approval by another government and to levy taxes or set rates or charges without approval by another government. Pursuant to Tennessee Code Annotated 7-86-114, before issuing negotiable bonds, the District must have approval of the legislative body of the county wherein the District is established. It also must have approval before making purchase contracts, lease agreements, and notes payable of over five years' duration. In addition, the Bedford County commission has the ability to adjust the District's service charges. Because the District is both a legal entity and financially accountable to the primary government of Bedford County as the County Commission approves all members of the governing board and by the nature of its fiscal dependence on Bedford County as described above, it is a component unit of Bedford County.

NOTES TO FINANCIAL STATEMENTS (continued)
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY
(a component unit of Bedford County, Tennessee)
June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Accounting – Private sector standards of accounting issued prior to December 1, 1989, generally are followed by the District to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

The District does not have the authority to levy or collect taxes but is supported instead by the fees collected from telephone subscribers who benefit from the availability of its service. It recovers the cost of providing its services from its customers. Consequently, the District functions in a manner similar to a private business enterprise and utilizes the accrual method of accounting. 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 accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenue; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Budgetary Law and Practice - The treasurer of the District files an annual budget with the mayor of Bedford County in accordance with the Tennessee Code Annotated, Title 7, Chapter 86, Part 1. In March of each year, the treasurer presents a preliminary budget to the board of directors. The budget is then discussed and amended as necessary for approval by the board.

The budget for operations is prepared on the modified cash receipts and disbursements basis by line item accounts. Revenues are budgeted in the year receipt is expected and disbursements are budgeted in the year that the disbursement is expected to occur. Capital lease payments are budgeted in total and depreciation expense is budgeted.

NOTES TO FINANCIAL STATEMENTS (continued)
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY
(a component unit of Bedford County, Tennessee)
June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets - Capital assets are stated at cost or estimated historical cost if actual cost is not available and depreciated five years – vehicles, ten years – office equipment, furniture and fixtures, and communications equipment, and forty years – building and improvements by the straight-line method of depreciation. The District defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Maintenance and repairs are charged to operations when incurred. Major renewals and betterments are capitalized. When items of property are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included as non-operating revenue or loss.

Use of Estimates - The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash Flow – Cash and Cash Equivalents - The District presents its cash flow statement using the direct method. For purposes of cash flow presentation, the District considers cash in operating bank accounts, cash on hand, and certificates of deposit with an original maturity of 90 days or less to be cash and cash equivalents. At June 30, 2012, the District did not hold any certificates of deposit.

Use of Facilities - The District conducts its operations in a building owned by Bedford County at no cost to the District. The measurement of the contribution from Bedford County is not considered significant for disclosure as in-kind support and expense in the accompanying statements of revenue, expenses, and changes in net assets.

Operating Revenues and Expenses - The District's operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation and maintenance of its system. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

NOTE B - CASH AND CASH EQUIVALENTS

The District's investments must be made in accordance with Section 5-8-301, *Tennessee Code Annotated* which generally limits maturities to no greater than two years. The board of directors has not formally adopted deposit and investment policies that limit the District's allowable deposits or investments; however, during the year ended June 30, 2012, the board of directors chose to limit the investment of funds to deposits at banks.

NOTES TO FINANCIAL STATEMENTS (continued)
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY
(a component unit of Bedford County, Tennessee)
June 30, 2012

NOTE B - CASH AND CASH EQUIVALENTS (CONTINUED)

Cash - At June 30, 2012, the carrying amount of cash deposits was \$311,528 and the bank balance was \$318,720. At June 30, 2012, the entire bank balance was covered by federal depository insurance, or by collateral held in the Tennessee Bank Collateral Pool. The Tennessee Bank Collateral Pool (the Pool) is a multiple financial institution collateral pool to which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the members of the pool if the value of collateral is inadequate to cover a loss.

<u>Cash Accounts</u>	<u>Interest Rate</u>	<u>June 30, 2012</u>	
		<u>Carrying Amount</u>	<u>Bank Balance</u>
Regions Bank checking	N/A	\$ 236,008	\$ 243,200
Regions Bank money market	.20%	<u>75,520</u>	<u>75,520</u>
		<u>\$ 311,528</u>	<u>\$ 318,720</u>

NOTE C - ACCOUNTS RECEIVABLE

The District receives the majority of its revenue from the telephone subscribers residing within Bedford County. As provided in the Act, telephone companies collect the 911 fees from the subscribers and remit the funds on a not longer than bi-monthly basis to the District. The policy of the telephone companies has been to remit based upon their billings rather than on their collections. Accordingly, the financial statements do not include a provision for bad debts.

The following is the detail of the receivables at June 30, 2012:

AT&T	\$ 13,235
Charter Fiberlink	5,083
United Telephone Company	7,881
Others	<u>3,318</u>
	<u>\$ 29,517</u>

NOTE D - ACCOUNTS PAYABLE

Accounts payable include amounts due vendors in the amount of \$3,274 at June 30, 2012.

NOTE E - INVESTIGATIVE AUDIT

The State of Tennessee Comptroller's office is performing an investigative audit of the District. Once completed the investigative audit report will be a matter of public record and will be made available for public inspection. Any inquiries concerning the investigative audit should be directed toward the State of Tennessee Comptroller of the Treasury, Bank of America Plaza, 414 Union Street, Suite 1100, Nashville, Tennessee 37243.

NOTES TO FINANCIAL STATEMENTS (continued)
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

June 30, 2012

NOTE F - CAPITAL ASSETS

Capital assets are summarized as follows:

	<u>June 30,</u> <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30,</u> <u>2012</u>
<u>Capital assets, being depreciated -</u>				
Building and improvements	\$ 236,231	\$ 6,250	\$ -	\$ 242,481
Furniture and fixtures	90,188	-	-	90,188
Office equipment	65,856	2,049	-	67,905
Communications equipment	847,571	8,262	-	855,833
Vehicle	45,150	-	-	45,150
Other fixed assets	<u>143,564</u>	<u>-</u>	<u>-</u>	<u>143,564</u>
Subtotal	1,428,560	16,561	-	1,445,121
<u>Less accumulated depreciation -</u>				
Building and improvements	(17,418)	(5,983)	-	(23,401)
Furniture and fixtures	(33,788)	(8,946)	-	(42,734)
Office equipment	(30,016)	(8,501)	-	(38,517)
Communications equipment	(387,935)	(82,627)	-	(470,562)
Vehicle	(26,471)	(5,747)	-	(32,218)
Other fixed assets	<u>(80,298)</u>	<u>(10,462)</u>	<u>-</u>	<u>(90,760)</u>
Subtotal	<u>(575,926)</u>	<u>(122,266)</u>	<u>-</u>	<u>(698,192)</u>
Capital assets, being depreciated, net	<u>\$ 852,634</u>	<u>\$ (105,705)</u>	<u>\$ -</u>	<u>\$ 746,929</u>

NOTE G - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District obtains insurance coverage covering the above risks of loss through a public risk entity pool, Tennessee Risk Management Trust (TRMT), which is a public entity risk pool created under the auspices of the Tennessee Governmental Tort Liability Act to provide governmental insurance coverage. The creation of the TRMT provides for it to be self-sustaining through member premiums. Settled claims have not exceeded the coverage in any of the past three fiscal years.

NOTE H - LONG-TERM DEBT

Long-term liability activity for capital leases for the year ended June 30, 2012, was as follows:

<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
\$148,608	\$ -	\$ 117,904	\$ 30,704	\$ 30,704

NOTES TO FINANCIAL STATEMENTS (continued)
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY
(a component unit of Bedford County, Tennessee)
June 30, 2012

NOTE I – CAPITAL LEASE OBLIGATIONS

The District has entered into lease agreements as lessee for financing the acquisition of capital assets including communications equipment. These lease agreements are capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset:	
Communication equipment	\$ 604,591
Less: accumulated depreciation	<u>(277,105)</u>
Total, net	<u>\$ 327,486</u>

The future minimum lease obligations and the new present value of the minimum lease payments as of June 30, 2012, are as follows:

Year Ending	
<u>June 30, 2013</u>	<u>\$ 31,035</u>
Total minimum lease payments	31,035
Less: amount representing interest	<u>(331)</u>
Present value of minimum lease payments	<u>\$ 30,704</u>

The amortization of capital assets acquired through capital leases is included in depreciation expense.

NOTE J – RELATED PARTY TRANSACTIONS

Bedford County provides dispatch employees to the District. The County's cost of these employees' benefits is reimbursed by the District. Amounts included as expenses for these services for the fiscal year 2012 totaled \$104,168. At June 30, 2012, there is a payable to Bedford County by the District in the amount of \$8,861.

NOTE K – PRIOR PERIOD RESTATEMENT

The District is responsible for all salary and benefit costs of the Director. As discussed in Note I, the District reimburses Bedford County for salary and benefit costs of the District's Director incurred by Bedford County. Upon termination the District is responsible for any vacation earned but not taken by the Director, which includes any amounts Bedford County would have incurred. As of June 30, 2011, this cost totaled \$14,019 but was not included as a liability in the June 30, 2011, financial statements. The June 30, 2012, financial statements include a restatement lowering equity \$14,019 to reflect this liability. Had this liability been recorded in the financial statements as of June 30, 2011, it would have had no effect on the change in net assets for the year ended June 30, 2011.

BUDGETARY COMPARISON SCHEDULE (MODIFIED CASH BASIS BUDGET)
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

Year ended June 30, 2012

	Actual (Modified) (Cash Basis)	Budget (Modified) (Cash Basis)	Variance Under (Over)
<u>CASH RECEIPTS</u>			
Emergency telephone service charge	\$ 300,367	\$ 324,000	\$ 23,633
TECB - shared wireless charge	103,825	97,500	(6,325)
TECB - operational funding	167,173	194,025	26,852
TECB - grants and reimbursements	40,758	227,091	186,333
Interest income	102	-	(102)
Other operating revenues	2,250	1,000	(1,250)
TOTAL MODIFIED CASH BASIS RECEIPTS	<u>614,475</u>	<u>843,616</u>	<u>229,141</u>
<u>CASH DISBURSEMENTS</u>			
Salaries and Wages:			
Director	58,847	61,360	2,513
Administrative personnel	7,285	7,285	-
	<u>66,132</u>	<u>68,645</u>	<u>2,513</u>
Employee Benefits:			
Social security	1,245	1,245	-
Medicare	291	291	-
Unemployment compensation	474	474	-
Government fees	231	231	-
	<u>2,241</u>	<u>2,241</u>	<u>-</u>
Contracted Services:			
Addressing/Mapping expenses	7,052	10,000	2,948
Advertising	170	500	330
Audit services	6,900	6,900	-
Administrative fees-service charges	9,023	9,720	697
Contracts with government agencies	103,723	141,534	37,811
Fees paid to service providers	43,983	43,983	-
Legal services	6,000	6,000	-
Maintenance agreements	83,900	90,626	6,726
NCIC/TBI/TIES Expenses	11,972	11,972	-
Pest control	1,015	1,500	485
Lease/rental-communications equipment	142,452	142,452	-
Lease/rental-furniture and fixtures	499	2,500	2,001
Maintenance and repairs-communications equipment	2,662	3,092	430
Maintenance and repairs-buildings and facilities	9,953	9,953	-
Maintenance and repairs-office equipment	413	500	87
Maintenance and repairs-vehicles	74	1,500	1,426
Fuel-Vehicles	1,380	1,800	420
Other contracted services	31	100	69
	<u>431,202</u>	<u>484,632</u>	<u>53,430</u>

See auditors' report on supplementary information.

BUDGETARY COMPARISON SCHEDULE (MODIFIED CASH BASIS BUDGET) (Continued)
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

Year ended June 30, 2012

Supplies and Materials:			
Office supplies	2,497	3,000	503
Custodial supplies	1,236	1,500	264
Postage	841	1,350	509
Small equipment purchases	2,446	2,600	154
Uniforms and shirts	3,915	6,500	2,585
Utilities-electric	14,719	18,010	3,291
Utilities-gas	724	1,000	276
Utilities-general telephone	12,415	12,415	-
Utilities-cell phone and pagers	4,809	4,809	-
Other supplies and materials	1,133	1,552	419
	<u>44,735</u>	<u>52,736</u>	<u>8,001</u>
Other Charges:			
Board meeting expenses	799	1,000	201
Dues and memberships	1,658	3,383	1,725
Employee testing and exams	173	588	415
Insurance-workers compensation	2,133	2,133	-
Insurance-buildings and contents	6,190	6,190	-
Insurance-vehicles	1,249	1,249	-
Legal notices	495	500	5
Premiums on surety bonds	850	1,000	150
Public education	132	1,000	868
Service awards	-	6,200	6,200
Training expenses	2,005	12,000	9,995
Travel expenses	10,255	11,903	1,648
Internet charges	1,969	1,969	-
	<u>27,908</u>	<u>49,115</u>	<u>21,207</u>
Depreciation	<u>122,266</u>	<u>121,214</u>	<u>(1,052)</u>
TOTAL MODIFIED CASH BASIS DISBURSEMENTS	<u>694,484</u>	<u>778,583</u>	<u>84,099</u>
DISBURSEMENTS (OVER) UNDER RECEIPTS	<u>(80,009)</u>	<u>\$ 65,033</u>	<u>\$ 145,042</u>

Reconciliation of Modified Cash Basis to Accrual Basis -

Capital purchase	16,561
Principal payments on lease	117,904
Decrease in accounts receivable - fees	(423)
Increase in due from TECB	1,054
Increase in prepaid expenses	14,390
Decrease in accounts payable	1,567
Increase in compensated absences payable	(10)
Decrease in due to primary government	3,393
NET RECONCILIATION CASH TO ACCRUAL	<u>154,436</u>
CHANGE IN NET ASSETS (ACCRUAL)	74,427
NET ASSETS, JULY 1 2011	1,034,467
PRIOR PERIOD RESTATEMENT	<u>(14,019)</u>
NET ASSETS, JUNE 30 2012	<u>\$ 1,094,875</u>

See auditors' report on supplementary information.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Emergency Communications District of Bedford County
Shelbyville, Tennessee

We have audited the financial statements of Emergency Communications District of Bedford County, a component unit of Bedford County, Tennessee, as of and for the year ended June 30, 2012, which collectively comprise the Emergency Communications District of Bedford County's basic financial statements and have issued our report thereon dated November 1, 2012. 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

Management of Emergency Communications District of Bedford County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Emergency Communications District of Bedford County'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 Emergency Communications District of Bedford County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and identified as finding 2012-1 to be a material weakness.

A significant deficiency is a deficiency, or 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. We consider the deficiencies in the accompanying schedule of findings described as findings 2012 -2, 2012-3, 2012-4, and 2012-5 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emergency Communications District of Bedford County'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*.

We noted certain other matters that we reported to management of Emergency Communications District of Bedford County in a separate letter dated November 1, 2012.

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

This report is intended solely for the information and use of management, the board of directors, Bedford County Board of Commissioners and appropriate regulatory authorities, and is not intended to be, and should not be used by anyone other than these specified parties.

November 1, 2012

Winnett Associates, LLC

SCHEDULE OF FINDINGS

EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

June 30, 2012

Finding 2012-1:

Condition, Criteria, Cause and Effect: The District does not employ anyone trained to prepare financial statements for external reporting in accordance with generally accepted accounting principles.

Recommendation: Management of the District should determine whether it would be financially feasible to train or hire someone to be able to prepare financial statements in accordance with generally accepted accounting principles.

Management Response: At this time we believe the cost of fully addressing this control deficiency would exceed the benefit.

Finding 2012-2:

Condition, Criteria, Cause and Effect: – We noted that the fourth quarter 2011 and first quarter 2012 quarterly federal payroll tax returns, IRS forms 941, have not been prepared.

Recommendation: These returns should immediately be prepared and filed.

Management Response: We are in the process of filing these returns.

Finding 2012-3:

Condition, Criteria, Cause and Effect: – It is our understanding that debit cards were given to employees in previous years for which applicable state and federal payroll tax returns have not been completed.

Recommendation: These returns should immediately be prepared and filed.

Management Response: It is our understanding that the State of Tennessee's investigative audit team will be addressing this issue, and we are waiting on their report to prepare complete and accurate returns.

Finding 2012-4:

Condition, Criteria, Cause and Effect: – It is our understanding that support for all expenditures is presented to the check signers prior to signing. During our audit, we requested support for credit card payments and noted support was not present for the two months credit card bills we requested. As a result we could not determine whether controls over the Director's credit card invoices or other expenditures, such as travel, were operating as described. Furthermore, it is our understanding that while support is to be presented for check signing, no one with authority over the Director, such as a board member, formally approves the Director's expenses.

Recommendation: All support for expenses should be retained and made available for audit. To provide clear responsibility for the Director's expenditures, we suggest a board member be assigned the responsibility of formally approving the Director's expenditures. This may be as simple as initialing the applicable invoices or other support.

SCHEDULE OF FINDINGS (continued)
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

June 30, 2012

Management Response: Many of the internal controls over financial reporting are being reviewed at this time, and we will fully consider this recommendation in designing these controls.

Finding 2012-5:

Condition, Criteria, Cause and Effect: Our audit testing in the area of cash receipts revealed the District's procedure is to make deposits based on having what is considered to be enough checks to warrant making the deposit. The District's current practice does not appear to meet the State of Tennessee's laws concerning the timing of deposits which require deposits to be made as soon as practical but not later than within three days of receipt. It is our experience that the use of the word "practical" often applies to the accessibility of the bank or the size of the deposits.

Recommendation: Management should develop a system of depositing receipts that is both practical and meets state laws for depositing all receipts within three days of receipt.

Management Response: We intend to develop a system to meet the state's requirements.