

**BENTON COUNTY
EMERGENCY COMMUNICATIONS DISTRICT**

FINANCIAL STATEMENTS

June 30, 2013

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT
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INTRODUCTORY SECTION

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF OFFICIALS**

June 30, 2013

Jerold Johnson – Chairman
John Smoot – Secretary/Treasurer
William Bell – Vice-chairman
Dwayne Presson
George Montgomery
Richard Kee
Raymond Palen

Justin Whipple – Director of Operations

FINANCIAL SECTION

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Independent Auditor's Report

Board of Directors
Benton County Emergency Communications District

Report on the Financial Statements

We have audited the accompanying financial statements of the Benton County Emergency Communications District, a component unit of Benton County, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Benton County Emergency Communications District as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Officials and Budgetary Comparison Schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Budgetary Comparison Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Benton County Emergency Communications District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Union City, Tennessee
December 9, 2013

BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF NET POSITION
 JUNE 30, 2013

ASSETS

Current assets

Cash		\$ 467,823
Accounts receivable		4,232
Prepaid expense		<u>18,767</u>
Total current assets		490,822

Noncurrent assets

Communications equipment	555,568	
Leasehold improvements	8,420	
Other equipment	55,973	
Furniture and fixtures	26,836	
Vehicles	5,500	
Intangible assets	115,572	
Accumulated depreciation and amortization	<u>(130,072)</u>	
Total noncurrent assets		<u>637,797</u>

Total assets **1,128,619**

LIABILITIES

Current liabilities

Accounts payable	32,923	
Accrued payroll and related payables	1,073	
Current portion of long-term capital lease	<u>29,999</u>	
Total current liabilities		63,995

Noncurrent liabilities

Capitalized lease	<u>140,057</u>	
Total liabilities		<u>204,052</u>

NET POSITION

Net investment in capital assets	467,741	
Unrestricted	<u>456,826</u>	
Total net position		<u>\$ 924,567</u>

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

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the Year Ended June 30, 2013

Operating revenue

TECB - shared wireless charge	\$ 39,967
TECB - operational funding	241,754
Emergency telephone service charge	64,831
Total operating revenue	346,552

Operating expenses

Salaries and wages	
Director salary	24,461
Employee benefits	
Social security	1,517
Medicare	355
Medical insurance	3,979
Unemployment taxes	177
Contracted services	
Addressing/mapping expense	16,381
Audit services	5,150
Accounting services	3,600
Data processing services	1,180
Engineering services	850
Facility relocation expenses	269
Fees paid to service provider	348
Maintenance agreement	7,913
Mapping/database consultants	95,069
Lease/rental - communications equipment	9,245
Repair and maintenance:	
Communications equipment	29,267
Building and facilities	2,253
Vehicles	161
Fuel - vehicles	154
Supplies and materials	
Office supplies	2,031
Custodial supplies	66
Data processing supplies	1,781
Small equipment purchases	6,995
Postage	281
Uniforms and shirts	144
Utilities	7,302
Other charges	
Bank service charges	74
Dues and memberships	410
Insurance - liability	1,381
Insurance - vehicles	173
Insurance - equipment	8,033
Legal notices	504
Licenses and fees	6,058
Insurance - surety bonds	680

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

BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2013

Other charges (continued)		
Public education	284	
Training	20,148	
Travel	5,662	
Internet charges	1,213	
Depreciation expense	66,026	
Amortization expense	11,557	
Total operating expenses	<u>115,570</u>	<u>343,132</u>
Operating income		3,420
Non-operating revenues (expenses)		
Interest income	2,105	
Interest expense	(7,830)	
Loss on disposal of capital assets	(21,047)	
Net non-operating revenues (expenses)	<u>(26,772)</u>	<u>(26,772)</u>
Decrease in net position		(23,352)
Net position - July 1, 2012		<u>947,919</u>
Net position - June 30, 2013		<u>\$ 924,567</u>

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

BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013

Cash flows from operating activities

Cash received from surcharges and other operating revenue		\$ 354,459
Cash payments to suppliers for goods and services		(203,797)
Cash payments for employees and taxes		<u>(29,416)</u>
Net cash provided by operating activities		121,246

Cash flows from capital and related financing activities

Purchases of property, plant, and equipment		(312,925)
Payments on capital lease		<u>(29,944)</u>
Net cash used by capital and related financing activities		(342,869)

Cash flows from investing activities

Interest earned on investments		<u>2,105</u>
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Net decrease in cash **(227,348)**

Cash - July 1, 2012 695,171

Cash - June 30, 2013 \$ 467,823

Reconciliation of operating income to net cash provided by operating activities

Operating income		\$ 3,420
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	77,583	
Decrease in accounts receivable	7,907	
Decrease in prepaid expense	6,723	
Increase in accounts payable	24,540	
Increase in accrued payroll and related payables	<u>1,073</u>	
Total adjustments		<u>117,826</u>

Net cash provided by operating activities **\$ 121,246**

Noncash capital financing activities

Capital assets of \$200,000 were acquired with a capital lease.

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

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

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Benton County Emergency Communications District was created on August 4, 1988, by a referendum of voters in Benton County, Tennessee, to be an emergency communications district as defined by Tennessee state law. As such, it is considered to be a "municipality" or public corporation in perpetuity under its corporate name and shall be a body politic and corporate with power of perpetual succession, but without power to levy or collect taxes. All Tennessee emergency communications districts are required to follow the *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts* developed by the Office of the Comptroller of the Treasury, Division of County Audit, pursuant to Section 7-86-304, *Tennessee Code Annotated* (TCA).

In evaluating how to define the Benton County Emergency Communications District for financial reporting purposes, management has considered whether the District is a primary government or a component unit of another primary government. The Board of Directors of the District are appointed by the County Commission. The County Commission has the authority to adjust the rates charged by the District, and the District must obtain the approval of the Commission before issuance of most debt instruments. The County has determined that this constitutes fiscal dependency by the District, and has, therefore, included the District as a component unit of Benton County in its financial statements.

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

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

The Benton County Emergency Communications District accounts for its financial position and results of operations in accordance with generally accepted accounting principles as defined in the statements of the Governmental Accounting Standards Board (GASB) for proprietary funds. Proprietary fund types are reported using the *economic resources* measurement focus and the accrual basis of accounting. The aim of this measurement focus is to report all inflows, outflows, and balances affecting or reflecting the entity's net position. The accrual basis of accounting recognizes income as it is earned and expenses as they are incurred, whether or not cash is received or paid out at that time.

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

C. Budgetary Information

The District is required by TCA Section 7-86-120 to adopt an annual budget. For the year ended June 30, 2013, the District prepared its budget within the guidelines of the *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts*, which permits emergency communications districts to adopt budgets that are not in accordance with generally accepted accounting principles. The approved budget did not include noncash expenses, such as depreciation, amortization, and loss on disposal of capital assets, or expenses to be paid after

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

June 30, 2013

current year end. The legal level of control is at each line item of expense; therefore, each line item must be amended prior to expending funds. For the year ended June 30, 2013, the District had four line items that exceeded the amounts budgeted, for a total of \$20,535.

D. Assets, Liabilities, and Net Position

Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of inception. State statutes authorize the System to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations by the U.S. government or its agencies, repurchase agreements as approved by the state director of local finance, and the state's local government investment pool.

Revenues and receivables

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

Capital assets

Capital assets are stated at cost. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life that exceeds one year. Assets consist of communications equipment, furniture and fixtures, leasehold improvements, and other equipment, which are depreciated using the straight-line method over estimated useful lives ranging from 5-10 years.

Impact of recently issued accounting pronouncements

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in non-governmental pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the District's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows and inflows of resources, which are distinct from assets and liabilities, and also renames as net position, rather than net assets, the residual of all other elements presented in a statement of financial position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of June 30, 2013, the District had no deferred outflows or deferred inflows of resources.

Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption

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

June 30, 2013

must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Occupancy in-kind

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

Personnel

The District has no employees other than its Director. All dispatch functions are conducted by employees of Benton County.

NOTE 2 – DETAILED NOTES ON ACCOUNTS

A. Deposits and Investments

As of June 30, 2013, the District had demand deposits at financial institutions in checking accounts, savings accounts, money market accounts and certificates of deposit.

Custodial Credit Risk - The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by the Federal Reserve Banks acting as third party agents. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2013, all of the District's deposits were insured or collateralized.

B. Capital Assets

Capital asset activity for the year was as follows:

Description	Balance 7/1/12	Additions	Disposals	Balance 6/30/13
Capital assets, being depreciated				
Communications equipment	\$ 210,928	\$ 391,853	\$ (47,213)	\$ 555,568
Leasehold improvements	26,962	-	(18,542)	8,420
Other equipment	73,037	-	(17,064)	55,973
Furniture and fixtures	30,248	-	(3,412)	26,836
Vehicles	-	5,500	-	5,500
Intangible assets	-	115,572	-	115,572
Total capital assets being depreciated	<u>341,175</u>	<u>512,925</u>	<u>(86,231)</u>	<u>767,869</u>

BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Description	Balance 7/1/12	Additions	Disposals	Balance 6/30/13
Less accumulated depreciation/amortization				
Communications equipment	58,794	53,938	(40,859)	71,873
Leasehold improvements	7,855	842	(6,387)	2,310
Other equipment	49,842	7,996	(17,064)	40,774
Furniture and fixtures	1,182	2,700	(874)	3,008
Vehicles	-	550	-	550
Intangible assets	-	11,557	-	11,557
Total accum. deprn/amortization	<u>117,673</u>	<u>77,583</u>	<u>(65,184)</u>	<u>130,072</u>
Total capital assets, net	<u>\$ 223,502</u>	<u>\$ 435,342</u>	<u>\$ (21,047)</u>	<u>\$ 637,797</u>

C. Capital Lease

The District financed \$200,000 of new equipment purchased during the current fiscal year with a capital lease. The lease is with AT&T and calls for monthly payments of \$3,777 over 60 months with a 5% interest rate. Future minimum lease payments as of June 30, 2013, are as follows:

Year ended June 30, 2014	\$ 45,329
Year ended June 30, 2015	45,329
Year ended June 30, 2016	45,329
Year ended June 30, 2017	45,329
Year ended June 30, 2018	7,380
Total requirements	<u>188,696</u>
Less interest	<u>18,640</u>
Present value of remaining payments	<u>\$ 170,056</u>

Equipment and related accumulated amortization under capital lease are \$200,000 and \$20,000 respectively. Amortization of leased equipment under capital assets is included with depreciation expense.

NOTE 3 – OTHER INFORMATION

A. Risk Management

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

BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

B. Subsequent Events

The District anticipates receiving reimbursement from the TECB for the NG 911 equipment purchased and related expenditures. The total cost amounted to \$471,500, of which \$458,852 was capitalized and \$12,648 was expensed. The District paid \$271,500 in cash and financed the remaining \$200,000 through a capital lease agreement (see Note 2C).

SUPPLEMENTARY INFORMATION SECTION

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

For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Over (Under)
Operating revenue				
TECB - shared wireless charge	\$ 38,000	\$ 40,000	\$ 39,967	\$ (33)
TECB - operational funding	205,000	242,931	241,754	(1,177)
Emergency telephone service charge	<u>60,000</u>	<u>69,000</u>	<u>64,831</u>	<u>(4,169)</u>
Total operating revenue	<u>303,000</u>	<u>351,931</u>	<u>346,552</u>	<u>(5,379)</u>
Operating expenses				
Salaries and wages				
Director salary	-	25,000	24,461	(539)
Employee benefits				
Social security	-	1,700	1,517	(183)
Medicare	-	400	355	(45)
Medical insurance	-	4,000	3,979	(21)
Unemployment taxes	-	360	177	(183)
Contracted services				
Addressing/mapping expense	18,500	20,000	16,381	(3,619)
Audit services	4,950	5,150	5,150	-
Accounting services	3,600	3,600	3,600	-
Data processing services	2,000	2,000	1,180	(820)
Engineering services	-	900	850	(50)
Facility relocation expenses	350	350	269	(81)
Fees paid to service provider	350	350	348	(2)
Maintenance agreement	2,400	7,950	7,913	(37)
Mapping/database consultants	101,000	64,000	62,746	(1,254)
Lease/rental - communications equipment	46,000	10,000	9,245	(755)
Repair and maintenance:				
Communications equipment	37,000	31,000	29,267	(1,733)
Building and facilities	1,000	2,500	2,253	(247)
Vehicles	200	200	161	(39)
Office equipment	-	100	-	(100)
Fuel - vehicles	2,000	500	154	(346)
Supplies and materials				
Office supplies	2,200	2,300	2,031	(269)
Custodial supplies	-	200	66	(134)
Data processing supplies	500	2,000	1,781	(219)
Small equipment purchases	3,000	6,100	6,995	895
Postage	200	350	281	(69)
Uniforms and shirts	-	200	144	(56)
Utilities	5,400	7,900	7,302	(598)
Other supplies and materials	2,200	2,200	-	(2,200)
Other charges				
Bank service charges	-	100	74	(26)
Board meeting expense	100	100	-	(100)
Dues and memberships	200	500	410	(90)
Insurance - liability	1,200	1,400	1,381	(19)
Workers compensation	400	400	-	(400)

See independent auditor's report

BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance Over (Under)
Other charges (continued)				
Insurance - vehicles	600	300	173	(127)
Insurance - equipment	8,100	8,200	8,033	(167)
Legal notices	500	550	504	(46)
Licenses and fees	6,250	6,800	6,058	(742)
Insurance - surety bonds	2,720	1,000	680	(320)
Public education	200	300	284	(16)
Training	500	12,000	20,148	8,148
Travel	1,500	2,000	5,662	3,662
Internet charges	2,500	1,300	1,213	(87)
Total operating expenses	<u>257,620</u>	<u>236,260</u>	<u>233,226</u>	<u>(3,034)</u>
Operating income	<u>45,380</u>	<u>115,671</u>	<u>113,326</u>	<u>(2,345)</u>
Non-operating revenues (expenses)				
Interest income	-	-	2,105	2,105
Interest expense	-	-	(7,830)	7,830
Net non-operating revenues (expenses)	<u>-</u>	<u>-</u>	<u>(5,725)</u>	<u>(5,725)</u>
Increase in net position - budgetary basis	<u>\$ 45,380</u>	<u>\$ 115,671</u>	<u>\$ 107,601</u>	<u>\$ (8,070)</u>
Reconciliation of budgetary basis to GAAP basis:				
Accounts payable recorded for final mapping installment			(32,323)	
Noncash expenses not budgeted:				
Depreciation			(66,026)	
Amortization			(11,557)	
Loss on disposal of capital assets			<u>(21,047)</u>	
Decrease in net position - GAAP basis - page 5			<u>(23,352)</u>	

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

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

Board of Directors
Benton County Emergency Communications District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Benton County Emergency Communications District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 9, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Benton County Emergency Communications District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and response as items 13-1, 12-2, 10-1 and 09-1, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Benton County Emergency Communications District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and response as items 13-1, 12-2 and 10-1.

Benton County Emergency Communications District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Union City, Tennessee
December 9, 2013

**BENTON COUNTY EMERGENCY COMMUNICATIONS DISTRICT
SCHEDULE OF FINDINGS AND RESPONSE
For the Year Ended June 30, 2013**

13-1 Checks Issued without Dual Signatures

Condition: During our testing of cash disbursements, we found three instances where checks were issued with only one signature.

Criteria: TCA 7-86-124 states that no board member, on such member's sole authority, may authorize disbursements. The Board's policies and procedures require two signatures on all checks disbursed

Effect: Failure to comply with state laws governing cash disbursements increases the risk that the District's funds may be misappropriated.

Recommendation: We recommend that the District ensure all checks have dual signatures before being issued.

Response: *The three checks were written at different dates. The first was during the change over to the new system of New Generation 911 and the return of the secretary/treasurer from a medical condition. On the other two checks, the secretary/treasurer, after having the chairman sign, just overlooked placing his signature before mailing.*

12-2 Insufficient Surety Bond Coverage

Condition: The District did not obtain a surety bond on the new director of operations.

Criteria: Tennessee Code Annotated (TCA) 7-86-119 states "Any board member, executive committee member, employee, officer, or any other authorized person of an emergency communications district, who receives public funds, has authority to make expenditures from public funds, or has access to any public funds is hereby required to give bond made payable to the state of Tennessee. . . .

Effect: Failure to comply with state laws governing surety bonds increases the risk of loss of public funds.

Recommendation: We recommend that the District obtain surety bonds on all personnel outlined above in the amounts required by state statute.

Response: *The Board's decision was not to allow the director to have authority or access to public funds. The Board has already authorized 3 of its members to have authority to expend and have access to public funds and all three of these are bonded according to TCA 7-86-119.*

10-1 Expenditures over Budget

Condition: There were four line items in expenditures that exceeded the amounts budgeted for the year ended June 30, 2013.

	Final Budget	Actual	Over Budget
Training	\$ 12,000	\$ 20,148	\$ 8,148
Travel	2,000	5,662	3,662
Small equipment purchases	6,100	6,995	895
Interest expense	-	7,830	7,830

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

For the Year Ended June 30, 2013

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

Effect: The District has made expenses not legally appropriated by the Board.

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

Response: *Invoices received after the end of the fiscal year were no included in the final adjustment of 2012-2013 budget during June 2013. Future adjustments will be monitored and take into consideration any and all adjustments to comply.*

09-1 Segregation of Duties

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

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

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

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

Response: *We concur. Beginning January 1, 2013, these duties were separated with the hiring of a director of operations, thus allowing the secretary/treasurer to resume his duties since the retirement of the former director several years prior.*

Disposition of prior year findings as required by audit contract:

12-1	Violation of 3-day Deposit Rule	corrected
12-2	Insufficient Surety Bond Coverage	repeated
10-1	Expenditures over Budget	repeated
09-1	Segregation of Duties	repeated