

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

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

Shelbyville, Tennessee
June 30, 2014

WINNETT
*A*ssociates, PLLC

Certified Public Accountants and Consultants

CONTENTS

| | |
|---|--------|
| INTRODUCTORY SECTION | |
| Roster of Board of Directors and Management Officials | Page 3 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 4 |
| FINANCIAL SECTION | |
| Independent Auditors' Report..... | 8 |
| Statement of Net Position..... | 10 |
| Statement of Revenues, Expenses and Changes in Net Position | 11 |
| Statement of Cash Flows..... | 14 |
| Notes to Financial Statements..... | 15 |
| Supplementary Information: | |
| Budgetary Comparison Schedule..... | 21 |
| INTERNAL CONTROL AND COMPLIANCE SECTION | |
| 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 <i>Government Auditing Standards</i> | 24 |
| Schedule of Findings..... | 26 |

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

June 30, 2014

BOARD OF DIRECTORS:

Curt Cobb - Chairman

Chris White - Vice Chairman

Scott Johnson - Secretary - Treasurer

Mark Thomas

Tony Barrett

Roger Hawks

Philip Gentry

Mickey Casson

One Vacant Seat

MANAGEMENT OFFICIALS:

Phillip Noel - Director

EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2014

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, 2014. 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 Position 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 Position. 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 financially or has its condition worsened as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the *District's* activities in a way that will help answer this question. These statements report the net position of the *District* and the changes in them. One can think of the *District's* net position-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 position is one indicator of whether its financial health is improving or deteriorating. A summary of the *District's* net position and changes in them is presented on the following page

Condensed Statement of Net Position

| | June 30, 2014 | June 30, 2013 | <i>Differences</i> |
|-----------------------------------|---------------------------|---------------------------|---------------------------|
| Current and other assets | \$ 686,351 | \$ 552,489 | \$ 133,862 |
| Capital assets | <u>606,313</u> | <u>730,447</u> | <u>(124,134)</u> |
| Total assets | <u>\$1,292,664</u> | <u>\$1,282,936</u> | <u>\$ 9,728</u> |
| Long-term liabilities outstanding | \$ - | \$ - | \$ - |
| Current liabilities | <u>47,584</u> | <u>71,988</u> | <u>(24,404)</u> |
| Total liabilities | <u>\$ 47,584</u> | <u>\$ 71,988</u> | <u>\$ (24,404)</u> |
| Net position: | | | |
| Net investment in capital assets | \$ 606,313 | \$ 730,447 | \$ (124,134) |
| Unrestricted | <u>638,767</u> | <u>480,501</u> | <u>158,266</u> |
| Total net position | <u>\$1,245,080</u> | <u>\$1,210,948</u> | <u>\$ 34,132</u> |

Condensed Statement of Revenues, Expenses and Changes in Net Position

| | June 30, 2014 | June 30, 2013 | <i>Differences</i> |
|----------------------------|---------------------------|---------------------------|---------------------------|
| Revenues: | | | |
| Operating revenues | \$ 530,265 | \$ 588,535 | \$ (58,270) |
| Non-operating revenues | <u>474,366</u> | <u>444,458</u> | <u>29,908</u> |
| Total revenues | <u>\$1,004,631</u> | <u>\$1,032,993</u> | <u>\$ (28,362)</u> |
| Expenses: | | | |
| Depreciation expense | \$ 124,134 | \$ 136,008 | \$ (11,874) |
| Other operating expense | 846,365 | 779,147 | 67,218 |
| Non-operating expense | <u>-</u> | <u>1,765</u> | <u>(1,765)</u> |
| Total expenses | <u>\$ 970,499</u> | <u>\$ 916,920</u> | <u>\$ 53,579</u> |
| Change in net position | \$ 34,132 | \$ 116,073 | \$ (81,941) |
| Beginning net position | <u>1,210,948</u> | <u>1,094,875</u> | <u>116,073</u> |
| Ending net position | <u>\$1,245,080</u> | <u>\$1,210,948</u> | <u>\$ 34,132</u> |

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

As can be seen from the above summarized financial information, the *District's* net position increased approximately \$34,132 during the year ended June 30, 2014. There was an decrease in revenue of \$28,362 and total expenses increased by \$53,579.

THE DISTRICT'S NET POSITION

The *District* completed the year with net position of \$1,245,080 which is approximately \$34,132 more than the prior year's ending net position of \$1,210,948.

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 \$26,117 more than the budgeted income. State shared wireless income and income from private carriers due to cell phone use was \$7,345 more than budget. Shared wireless charges are fees that are difficult to estimate.

Additionally, the *District* is still engaged with 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 \$1,309,341 with accumulated depreciation of \$703,028. Capital assets include the capital leases, communication equipment, building improvements, and communication software upgrades.

LONG-TERM LIABILITIES

The *District* had \$0 in long-term debt obligations outstanding as of June 30, 2014.

ECONOMIC FACTORS AND FUTURE NEEDS

While solvency has been a concern for several years with declining revenue, the *District* is transitioning into another period of financial uncertainty at the beginning of the calendar year 2015.

For many years, revenue has been declining across the 911 industry and Bedford County was no exception. The compensation model relied heavily on dollars generated from landlines, residential and business at \$1.50 and \$3.00 each, respectively. 100% of these funds were returned to the district from which they originated. Wireless devices and voice-over internet protocol (VOIP) lines carried a surcharge of \$1.00 each and only \$0.25 actually came directly back to the district. The remaining portion was always diverted to the Tennessee Emergency Communications Board (TECB), partially coming back, incrementally, to the districts in an unpredictable and inconsistent manner. With the proliferation of wireless devices over the last decade, this became a failing business model for the districts.

During the legislative session in the spring of 2014, a bill was passed which created a new funding structure for 911 across the State of Tennessee. Beginning in January 2015, any device that has the capability of calling 911 will be charged a monthly flat rate of \$1.16. At the time of this publishing, the determination of the percentage to be returned to districts has not been finalized. Based on conversations with lawmakers and counsel, we feel confident this number will not be less than 80% and a revenue floor will be established.

According to our best estimated calculations, revenue for the *District* should stabilize near 2013-2014 revenue levels. However, these are *only estimates*. TECB has a vested interest in ensuring the NextGEN 911 project with AT&T is completed. This, combined with the uncertainty of the actual structure of the TECB moving forward, dictates that all districts continue to be tentative in their projections.

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying 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, 2014, and the related notes to the financial statements, which collectively comprise the Emergency Communications District of Bedford County'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 Emergency Communications District of Bedford County as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 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 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.

Other Information

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 basic financial statements. The introductory section and the supplementary information are presented for purposes of additional analysis and are not a required part of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2014, on our consideration of Emergency Communications District of Bedford County's internal control over financial reporting and on our tests of 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 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 Emergency Communications District of Bedford County's internal control over financial reporting and compliance.

Winnett Associates, PLLC

September 8, 2014

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

June 30, 2014

ASSETS

CURRENT ASSETS

| | | |
|---|----|----------------|
| Cash | \$ | 585,783 |
| Accounts receivable | | 20,280 |
| Due from Tennessee Emergency Communications Board | | 19,532 |
| Due from primary government | | 36,903 |
| Prepaid expenses | | 23,753 |
| | | 686,251 |
| TOTAL CURRENT ASSETS | | 686,251 |

CAPITAL ASSETS

| | | |
|--------------------------------|--|-----------|
| Building and improvements | | 242,481 |
| Furniture and fixtures | | 90,188 |
| Office equipment | | 48,722 |
| Communications equipment | | 744,084 |
| Vehicles | | 45,150 |
| Intangibles | | 29,152 |
| Other capital assets | | 109,564 |
| | | 1,309,341 |
| Less: accumulated depreciation | | 703,028 |
| | | 606,313 |

OTHER ASSETS

| | | |
|---------------------|--|------------------|
| Security deposits | | 100 |
| | | 100 |
| TOTAL ASSETS | | 1,292,664 |

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

| | | |
|----------------------------------|--|---------------|
| Accounts payable | | 6,769 |
| Compensated absences payable | | 27,269 |
| Payroll deductions payable | | 3,088 |
| Accrued payroll | | 10,458 |
| | | 47,584 |
| TOTAL CURRENT LIABILITIES | | 47,584 |

NET POSITION

| | | |
|------------------------------|--|---------------------|
| Investment in capital assets | | 606,313 |
| Unrestricted | | 638,767 |
| | | 1,245,080 |
| TOTAL NET POSITION | | \$ 1,245,080 |

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY
(a component unit of Bedford County, Tennessee)

Year ended June 30, 2014

OPERATING REVENUES

| | |
|---|----------------|
| Emergency telephone service charge | \$ 244,903 |
| Tennessee Emergency Communications Board-shared wireless charge | 115,412 |
| Tennessee Emergency Communications Board-operational funding | 167,214 |
| Other operating revenues | <u>2,736</u> |
| TOTAL OPERATING REVENUES | 530,265 |

OPERATING EXPENSES

Salaries and Wages:

| | |
|---------------------------------|----------------|
| Director | 54,450 |
| Dispatchers | 280,740 |
| Overtime | 58,433 |
| Part-time personnel | 8,859 |
| Other salaries and wages | <u>24,508</u> |
| Total Salaries and Wages | 426,990 |

Employee Benefits:

| | |
|--------------------------------|----------------|
| Social security | 30,438 |
| Medicare | 6,486 |
| Life insurance | 556 |
| Medical insurance | 42,766 |
| Unemployment compensation | 692 |
| Retirement contributions | <u>21,635</u> |
| Total Employee Benefits | 102,573 |

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

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

EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

Year ended June 30, 2014

| | |
|--|-----------|
| Contracted Services: | |
| Addressing/Mapping expenses | \$ 19,801 |
| Audit services | 7,769 |
| Administrative fees-service charges | 6,955 |
| Contracts with government agencies | 426 |
| Fees paid to service providers | 100,294 |
| Legal services | 17,013 |
| Maintenance agreements | 22,533 |
| NCIC/TBI/TIES expenses | 4,900 |
| Pest control | 906 |
| Lease/rental-communications equipment | 979 |
| Lease/rental-furniture and fixtures | 3,836 |
| Maintenance and repairs-communications equipment | 8,377 |
| Maintenance and repairs-buildings and facilities | 19,440 |
| Maintenance and repairs-office equipment | 450 |
| Maintenance and repairs-vehicles | 700 |
| Fuel-vehicles | 1,444 |
| | <hr/> |
| Total Contracted Services | 215,823 |
| Supplies and Materials: | |
| Office supplies | 2,340 |
| Custodial supplies | 1,254 |
| Postage | 543 |
| Small equipment | 34,404 |
| Uniforms and shirts | 3,932 |
| Utilities-electric | 15,371 |
| Utilities-gas | 1,241 |
| Utilities-general telephone | 15,367 |
| Utilities-cell phone and pagers | 2,106 |
| Other supplies and materials | 231 |
| | <hr/> |
| Total Supplies and Materials | 76,789 |

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

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

EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

Year ended June 30, 2014

Other Charges:

| | |
|----------------------------------|------------|
| Board meeting expenses | \$ 655 |
| Dues and memberships | 1,499 |
| Employee testing and exams | 790 |
| Insurance-workers compensation | 2,710 |
| Insurance-buildings and contents | 6,886 |
| Insurance-vehicles | 1,469 |
| Legal notices | 533 |
| Premiums on surety bonds | 615 |
| Service awards | 24 |
| Training expenses | 4,238 |
| Travel expenses | 4,196 |
| Internet charges | <u>575</u> |
| Total Other Charges | 24,190 |

Depreciation Expense

| |
|--|
| 124,134 |
| <u>TOTAL OPERATING EXPENSES 970,499</u> |
| <u>OPERATING INCOME (LOSS) (440,234)</u> |

NONOPERATING REVENUES (EXPENSES):

| | |
|--|----------------|
| Interest income | 363 |
| Tennessee Emergency Communications Board-grants and reimbursements | 74,003 |
| Contributions from primary government | <u>400,000</u> |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 474,366 |
| CHANGE IN NET POSITION | 34,132 |

| | |
|------------------------------------|----------------------------|
| NET POSITION - BEGINNING OF PERIOD | <u>1,210,948</u> |
| NET POSITION - END OF PERIOD | <u><u>\$ 1,245,080</u></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, 2014

| | |
|--|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Cash received from surcharges and other revenues | \$ 540,636 |
| Cash payments to suppliers for goods and services | (337,357) |
| Cash payments for payroll, taxes, and related benefits | <u>(530,244)</u> |
| NET CASH USED BY OPERATING ACTIVITIES | (326,965) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | |
| Contributions from primary government | 399,425 |
| Grants and reimbursements | <u>74,003</u> |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 473,428 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Interest income | <u>363</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 363 |
| NET INCREASE IN CASH | <u>146,826</u> |
| CASH, JULY 1, 2013 | <u>438,957</u> |
| CASH, JUNE 30, 2014 | <u><u>\$ 585,783</u></u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET | |
| CASH USED BY OPERATING ACTIVITIES: | |
| Operating income (loss) | \$ (440,234) |
| Adjustments to reconcile operating income (loss) to net cash flows from operating activities - | |
| Depreciation | 124,134 |
| Change in assets and liabilities: | |
| Accounts receivable - fees | 11,014 |
| Due from Tennessee Emergency Communications Board | (643) |
| Prepaid expenses | 3,168 |
| Accounts payable | (24,113) |
| Payroll deductions payable | 1,501 |
| Compensated absences payable | 390 |
| Accrued payroll | <u>(2,182)</u> |
| NET CASH USED BY OPERATING ACTIVITIES | <u><u>\$ (326,965)</u></u> |
| CASH PAID DURING THE YEAR FOR INTEREST | <u><u>\$ -</u></u> |

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, 2014

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

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 is considered a component unit of Bedford County.

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.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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.

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 position, revenues and expenses. 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. Revenues are recognized when earned and expenses are recognized 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.

Operating revenues in proprietary fund types are those revenues generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

NOTES TO FINANCIAL STATEMENTS (continued)
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY
(a component unit of Bedford County, Tennessee)
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 asset purchases and capital lease payments are budgeted in total.

Capital Assets

Capital assets are stated at cost or estimated historical cost if actual cost is not available. Maintenance, repairs, and minor renewals are expensed while major renewals and betterments are capitalized. The District defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of three years. 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.

Depreciation is provided over estimated useful lives ranging from five to forty years using the straight-line method.

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, 2014, 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 position.

NOTES TO FINANCIAL STATEMENTS (continued)
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY
(a component unit of Bedford County, Tennessee)
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position Flow Assumption

The District will on occasion 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 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category as of June 30, 2014.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category as of June 30, 2014.

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, 2014, the board of directors chose to limit the investment of funds to deposits at banks.

Cash - At June 30, 2014, the carrying amount of cash deposits was \$585,783 and the bank balance was \$611,088. At June 30, 2014, 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.

NOTES TO FINANCIAL STATEMENTS (continued)
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY
(a component unit of Bedford County, Tennessee)
June 30, 2014

NOTE B - CASH AND CASH EQUIVALENTS (CONTINUED)

Cash is presented in the financial statements as follows:

| <u>Cash Accounts</u> | <u>Interest Rate</u> | <u>June 30, 2014</u> | |
|-------------------------|----------------------|----------------------------|-------------------------|
| | | <u>Carrying Amount</u> | <u>Bank Balance</u> |
| First Bank checking | .10% | \$ 510,243 | \$ 535,549 |
| First Bank money market | .10% | 75,540 | 75,539 |
| | | <u>\$ 585,783</u> | <u>\$ 611,088</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 no 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, 2014:

| | |
|--------------------------|------------------|
| AT&T | \$ 10,906 |
| United Telephone Company | 7,421 |
| Others | 1,953 |
| | <u>\$ 20,280</u> |

NOTE D - ACCOUNTS PAYABLE

Accounts payable include amounts due vendors in the amount of \$6,769 at June 30, 2014.

NOTES TO FINANCIAL STATEMENTS (continued)
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY
(a component unit of Bedford County, Tennessee)
June 30, 2014

NOTE E - CAPITAL ASSETS

Capital assets are summarized as follows:

| | <u>June 30,</u> <u>2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30,</u> <u>2014</u> |
|--|--------------------------------|---------------------|------------------|--------------------------------|
| <u>Capital assets, being depreciated -</u> | | | | |
| Building and improvements | \$ 242,481 | \$ - | \$ - | \$ 242,481 |
| Furniture and fixtures | 90,188 | - | - | 90,188 |
| Office equipment | 48,722 | - | - | 48,722 |
| Communications equipment | 744,084 | - | - | 744,084 |
| Vehicle | 45,150 | - | - | 45,150 |
| Intangibles | 29,152 | - | - | 29,152 |
| Other fixed assets | <u>109,564</u> | <u>-</u> | <u>-</u> | <u>109,564</u> |
| Subtotal | 1,309,341 | - | - | 1,309,341 |
| <u>Less accumulated depreciation -</u> | | | | |
| Building and improvements | (29,463) | (2,200) | - | (31,663) |
| Furniture and fixtures | (51,681) | (9,089) | - | (60,770) |
| Office equipment | (33,035) | (4,513) | - | (37,548) |
| Communications equipment | (357,731) | (88,854) | - | (446,585) |
| Vehicle | (37,965) | (6,227) | - | (44,192) |
| Intangibles | (1,944) | (2,915) | - | (4,859) |
| Other fixed assets | <u>(67,075)</u> | <u>(10,336)</u> | <u>-</u> | <u>(77,411)</u> |
| Subtotal | <u>(578,894)</u> | <u>(124,134)</u> | <u>-</u> | <u>(703,028)</u> |
| Capital assets, being depreciated, net | <u>\$ 730,447</u> | <u>\$ (124,134)</u> | <u>\$ -</u> | <u>\$ 606,313</u> |

NOTE F - 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 G - PRIOR PERIOD ADJUSTMENT

A prior period adjustment has been made to the unrestricted net position to remove \$119,526 in amounts receivable from the Tennessee Emergency Communications Board. This adjustment reduces the beginning net position from \$1,330,474 to \$1,210,948. Had this error not occurred the change in net position for the year ended June 30, 2013, would have been \$116,073 rather than \$235,599.

SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE (CASH BASIS BUDGET)

EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

Year ended June 30, 2014

| | Actual (Cash Basis) | Budget (Cash Basis) | Variance Under (Over) |
|---------------------------------------|------------------------|------------------------|-----------------------------|
| <u>CASH RECEIPTS</u> | | | |
| Emergency telephone service charge | \$ 255,917 | \$ 229,800 | \$ (26,117) |
| TECB - shared wireless charge | 114,745 | 107,400 | (7,345) |
| TECB - operational funding | 167,214 | 167,214 | - |
| TECB - grants and reimbursements | 74,003 | 143,748 | 69,745 |
| Interest income | 363 | - | (363) |
| Contributions from primary government | 399,425 | 450,214 | 50,789 |
| Other operating revenues | 2,736 | 1,000 | (1,736) |
| TOTAL CASH BASIS RECEIPTS | 1,014,403 | 1,099,376 | 84,973 |
| <u>CASH DISBURSEMENTS</u> | | | |
| Salaries and Wages: | | | |
| Director | 52,679 | 52,679 | - |
| Dispatchers' salaries | 281,426 | 337,284 | 55,858 |
| Overtime pay | 59,142 | 75,439 | 16,297 |
| Part-time personnel | 9,207 | 13,000 | 3,793 |
| Longevity and holiday pay | 26,327 | 35,250 | 8,923 |
| | 428,781 | 513,652 | 84,871 |
| Employee Benefits: | | | |
| Social security | 27,732 | 31,846 | 4,114 |
| Medicare | 6,486 | 7,448 | 962 |
| Life insurance | 556 | 707 | 151 |
| Medical insurance | 42,766 | 69,901 | 27,135 |
| Unemployment compensation | 692 | 4,268 | 3,576 |
| Retirement contributions | 21,635 | 30,614 | 8,979 |
| | 99,867 | 144,784 | 44,917 |

BUDGETARY COMPARISON SCHEDULE (CASH BASIS BUDGET) (continued)

EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

Year ended June 30, 2014

| | Actual (Cash Basis) | Budget (Cash Basis) | Variance Under (Over) |
|--|------------------------|------------------------|-----------------------------|
| Contracted Services: | | | |
| Addressing/Mapping expenses | 19,801 | 30,000 | 10,199 |
| Advertising | - | 500 | 500 |
| Audit services | 7,770 | 8,500 | 730 |
| Administrative fees-service charges | 7,282 | 10,000 | 2,718 |
| Contracts with government agencies | 22,818 | 22,818 | - |
| Fees paid to service providers | 88,144 | 85,749 | (2,395) |
| Legal services | 17,013 | 14,200 | (2,813) |
| Maintenance agreements | 33,312 | 37,051 | 3,739 |
| NCIC/TBI/TIES expenses | 5,000 | 8,500 | 3,500 |
| Pest control | 1,015 | 1,500 | 485 |
| Lease/rental-communications equipment | 979 | 37,825 | 36,846 |
| Lease/rental-furniture and fixtures | 3,836 | 12,000 | 8,164 |
| Maintenance and repairs-communications equipment | 8,377 | 11,000 | 2,623 |
| Maintenance and repairs-buildings and facilities | 19,540 | 7,000 | (12,540) |
| Maintenance and repairs-office equipment | 450 | 500 | 50 |
| Maintenance and repairs-vehicles | 700 | 2,000 | 1,300 |
| Fuel-vehicles | 1,390 | 2,500 | 1,110 |
| | <u>237,427</u> | <u>291,643</u> | <u>54,216</u> |
| Supplies and Materials: | | | |
| Office supplies | 2,340 | 3,000 | 660 |
| Custodial supplies | 1,254 | 1,500 | 246 |
| Postage | 543 | 1,000 | 457 |
| Small equipment purchases | 34,404 | 5,000 | (29,404) |
| Uniforms and shirts | 3,932 | 4,000 | 68 |
| Utilities-electric | 16,318 | 16,000 | (318) |
| Utilities-gas | 1,241 | 2,000 | 759 |
| Utilities-general telephone | 15,531 | 17,000 | 1,469 |
| Utilities-cell phone and pagers | 2,297 | 2,500 | 203 |
| Other supplies and materials | 231 | 1,500 | 1,269 |
| | <u>78,091</u> | <u>53,500</u> | <u>(24,591)</u> |

BUDGETARY COMPARISON SCHEDULE (CASH BASIS BUDGET) (continued)

EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY

(a component unit of Bedford County, Tennessee)

Year ended June 30, 2014

| | Actual (Cash Basis) | Budget (Cash Basis) | Variance Under (Over) |
|--|------------------------|------------------------|-----------------------------|
| Other Charges: | | | |
| Board meeting expenses | 655 | 1,500 | 845 |
| Dues and memberships | 2,249 | 4,000 | 1,751 |
| Employee testing and exams | 570 | 1,500 | 930 |
| Insurance-workers compensation | 2,710 | 3,200 | 490 |
| Insurance-buildings and contents | 6,886 | 7,000 | 114 |
| Insurance-vehicles | 1,469 | 1,500 | 31 |
| Legal notices | 615 | 1,500 | 885 |
| Premiums on surety bonds | 559 | 600 | 41 |
| Public education | - | 1,000 | 1,000 |
| Service awards | 24 | 1,000 | 976 |
| Training expenses | 4,238 | 12,000 | 7,762 |
| Travel expenses | 4,196 | 5,000 | 804 |
| Internet charges | 765 | 2,500 | 1,735 |
| | <u>24,936</u> | <u>42,300</u> | <u>17,364</u> |
| TOTAL CASH BASIS DISBURSEMENTS | <u>869,102</u> | <u>1,045,879</u> | <u>176,777</u> |
| DISBURSEMENTS (OVER) UNDER RECEIPTS | <u>145,301</u> | <u>\$ 53,497</u> | <u>\$ (91,804)</u> |

Reconciliation of Cash Basis to Accrual Basis -

| | |
|---|---------------------|
| Depreciation expense | (124,134) |
| Decrease in accounts receivable - fees | (11,014) |
| Increase in due from TECB | 667 |
| Increase in due from primary government | 575 |
| Decrease in prepaid expenses | (3,168) |
| Decrease in accounts payable | 24,113 |
| Decrease in accrued payroll | 2,182 |
| Increase in compensated absences payable | (390) |
| NET RECONCILIATION CASH TO ACCRUAL | <u>(111,169)</u> |
| CHANGE IN NET POSITION (ACCRUAL) | <u>34,132</u> |
| NET POSITION, JULY 1 2013 | <u>1,210,948</u> |
| NET POSITION, JUNE 30 2014 | <u>\$ 1,245,080</u> |

**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, 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 Emergency Communications District of Bedford County, a component unit of Bedford County, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Emergency Communications District of Bedford County's basic financial statements, and have issued our report thereon dated September 8, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Emergency Communications District of Bedford County'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 Emergency Communications District of Bedford County's internal control. Accordingly, we do not express an opinion on the effectiveness of Emergency Communications District of Bedford County'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. Given those 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emergency Communications District of Bedford County'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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2013-1.

We noted a certain matter that we reported to management of the District in a separate letter dated September 8, 2014.

Emergency Communications District of Bedford County's Response to Findings

Emergency Communications District of Bedford County's response to the findings identified in our audit is described in the accompanying schedule of findings. Emergency Communications District of Bedford County'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.

Winnett Associates, PLLC

September 8, 2014

**SCHEDULE OF FINDINGS
EMERGENCY 911 COMMUNICATIONS DISTRICT OF BEDFORD COUNTY**

June 30, 2014

Current Year

NONE

Prior Year - Corrective Action Has Not Been Taken

Finding 2013-1:

Condition, Criteria, Cause and Effect: Tennessee Code Annotated section 7-86-120 requires the District to adopt and operate under an annual budget. Budget ordinances are to be adopted for the original budget and amendments made as needed. The legal level of control is defined to be at the line-item level. Certain line items had expenditures in excess of amounts budgeted.

Recommendation: We recommend the District carefully monitor its budget each month and make amendments as necessary to authorize all expenditures prior to their being incurred.

Management's Response: Steps are being taken to correct this finding.

Prior Year - Corrective Action Has Been Taken

Finding 2013-2:

Condition, Criteria, Cause and Effect: The State of Tennessee Comptroller's office performed a special investigation of the District and released its report March 25, 2013. Included in their report was Finding 12.08 which stated "the district did not issue receipts for collections. Section 9-2-103, Tennessee Code Annotated, requires official prenumbered receipts for all collections. This deficiency increases the risks of fraud and abuse." Receipting procedures have not been changed in a manner that addresses this finding.

Status: Prenumbered receipts are now being issued for all collections as required by state statute.