

**KENDALL COUNTY EMERGENCY
TELEPHONE SYSTEM BOARD
YORKVILLE, ILLINOIS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
NOVEMBER 30, 2012**



CERTIFIED PUBLIC ACCOUNTANTS

Prepared by:

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KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD

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INDEPENDENT AUDITORS' REPORT



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Independent Auditors' Report

To the Board of Directors
Kendall County Emergency
Telephone System Board
Yorkville, Illinois 60560

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kendall County Emergency Telephone System Board, Kendall County, Illinois as of and for the year ended November 30, 2012, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Emergency Telephone System Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Kendall County Emergency Telephone System Board, Kendall County, Illinois, as of November 30, 2012 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2013, on our consideration of the Kendall County Emergency Telephone Systems Board's internal control over financial reporting and our tests of its compliance with certain provisions laws, regulations, contracts, 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 and budgetary comparison information on pages 3 through 7 and 23 through 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mack & Associates, P.C.

MACK & ASSOCIATES, P.C.
Certified Public Accountants

Morris, Illinois
January 10, 2013

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD
Management's Discussion and Analysis (Unaudited)

For the Year Ended November 30, 2012

Our discussion and analysis of the Kendall County Emergency Telephone System Board's financial performance provides an overview of the Board's financial activities for the fiscal year ended November 30, 2012. Please read it in conjunction with the Kendall County Emergency Telephone System Board's financial statements that begin on page 8.

FINANCIAL HIGHLIGHTS

- The Emergency Telephone System Board's net assets increased \$258,808 to \$4,286,555 in 2012 from \$4,207,747 in 2011.
- During the current fiscal year, the Board's total expenditures exceeded total revenues by \$1,396,764.
- The Board's General Fund ended the year with a fund balance of \$694,980 which represents a 14.0% increase from the prior year. The KenCom Operations Fund ended the year with a fund balance of \$132,550, the Building Fund ended the year with a fund balance of \$625,000, the Equipment Fund ended the year with a fund balance of \$633,204, and overall, the Board ended the year with a fund balance of \$2,085,734 which represents a 40.1% decrease from the prior year.
- The General Fund's total expenditures of \$296,631 were \$98,569 less than the \$395,200 budgeted for the 2012 fiscal year.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Board's modified accrual basis of accounting.

Report Components

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements (government-wide and fund statements) including notes to the financial statements, and required supplementary information. The basic financial statements include two types of statements that present different views of the Emergency Telephone System Board:

Government-wide Financial Statements: The Government-wide Financial Statements report information about the Board as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the Board's net assets and how they have changed. Net assets, the difference between the Board's assets and liabilities, are one way to measure the Board's overall financial position. All of the current year's revenues and expenses are accounted for in the Statement of Activities.

The Government-wide Financial Statements are useful in assessing the financial position of the Board:

- Over time, increases or decreases in the Board's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall financial condition of the Board, additional non-financial factors should be considered.

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD
Management's Discussion and Analysis (Unaudited)

For the Year Ended November 30, 2012

In the Government-wide Financial Statements, the Board's activities are categorized as:

- *Governmental activities:* Most of the Board's basic services are reported here. Surcharges and intergovernmental fees finance most of these activities.

Fund Financial Statements: Fund financial statements focus on the individual parts of the Board's government. Fund financial statements also report the Board's operations in more detail than the Government-wide Financial Statements by focusing on its most significant or "major" funds. Funds are accounting devices the Board uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond covenants. The Board can establish other funds to control and manage monies for particular purposes or to show that it is properly using certain revenues.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded information and detail regarding the information reported in the statements.

Required Supplementary Information: This Management's Discussion and Analysis and the individual funds' Budgetary Comparison Schedules represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

Basis of Accounting

The Board has elected to report the financial statements using modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America. Accrual basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues and expenses. Related assets and liabilities are recorded when they occur rather than from cash transactions. Depreciation expense on capital assets is reported in the proprietary and fund statements.

Reporting the Kendall County Emergency Telephone System Board as a Whole

The Emergency Telephone System Board's Entity Presentation

This annual report includes all activities for which the Kendall County Emergency Telephone System Board is fiscally responsible. These activities are defined as the Kendall County Emergency Telephone System Board reporting entity.

Economic Factors Affecting the Board's Operations

The Board collects telephone surcharges through the State of Illinois. As of November 30, 2012 the State is approximately 90 days behind in its payments to the Board. The delay in payment has not caused operational issues for the Board in the current fiscal year, but continued delays could adversely affect the board's operations in the future.

KENDALL COUNTY TELEPHONE SYSTEM BOARD
Management's Discussion and Analysis (Unaudited)

For the Year Ended November 30, 2012

A FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE

Net Assets--Modified Accrual Basis

The Board's combined net assets, resulting from modified accrual basis transactions, with comparisons to prior year, are as follows.

	<u>Governmental Activities</u>		<u>Total Percentage Change</u>
	<u>2012</u>	<u>2011</u>	<u>2011-2012</u>
<u>Assets</u>			
Current and other assets	\$ 2,086,722	3,495,547	-40%
Capital Assets	2,200,821	545,249	304%
Total assets	<u>\$ 4,287,543</u>	<u>4,040,796</u>	<u>6%</u>
<u>Liabilities and Net Assets</u>			
Current liabilities	\$ 988	13,049	-92%
Total liabilities	<u>988</u>	<u>13,049</u>	<u>0%</u>
Net assets			
Invested in capital assets, net of related debt	2,200,821	545,249	304%
Restricted	1,390,754	2,897,899	-52%
Unrestricted	694,980	584,599	19%
Total net assets	<u>\$ 4,286,555</u>	<u>4,027,747</u>	<u>6%</u>

KENDALL COUNTY TELEPHONE SYSTEM BOARD
Management's Discussion and Analysis (Unaudited)

For the Year Ended November 30, 2012

Changes in Net Assets--Modified Accrual Basis

For the year ended November 30, 2012, net assets of the Emergency Telephone System Board (resulting from modified accrual basic transactions) changed as follows:

	Governmental Activities		Total
	2012	2011	Percentage Change 2011-2012
Revenues:			
General revenues			
Service fees	\$ 1,189,810	946,145	26%
Kendall County	1,789,998	1,857,819	-4%
Investment income	6,664	9,347	-29%
Miscellaneous revenues	801	8,336	-90%
Total revenues	<u>2,987,273</u>	<u>2,821,647</u>	<u>6%</u>
Expenses:			
General government:			
Administrative expenses	<u>2,728,464</u>	<u>2,331,494</u>	<u>17%</u>
Total expenses	<u>2,728,464</u>	<u>2,331,494</u>	<u>17%</u>
Increase in net assets	258,808	490,153	-47%
Total net assets-beginning	<u>4,027,747</u>	<u>3,537,594</u>	<u>14%</u>
Total net assets-ending	<u>\$ 4,286,555</u>	<u>4,027,747</u>	<u>6%</u>

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD
Management's Discussion and Analysis (Unaudited)

For the Year Ended November 30, 2012

Capital Assets--Modified Accrual Basis

At November 30, 2012, the Emergency Telephone System Board had \$2,200,821 invested in capital assets, net of depreciation. See notes for more information on assets.

Governmental Activities Capital Assets--Modified Accrual Basis
(Net of accumulated depreciation)

	Governmental Activities	
	2012	2011
Equipment, net	\$ 673,376	545,249
Construction in progress	1,527,445	-
Total capital assets, net of accumulated depreciation	<u>\$ 2,200,821</u>	<u>545,249</u>

Major capital additions for the year ended November 30, 2012 included the following:

Tower Project	504,836
Console Furniture Project	150,175
Radio Project (in progress)	1,207,180
9-1-1 Phone System & Recording Project (in progress)	282,126

Additionally, during the year ended November 30, 2012, the Board disposed of obsolete assets with a net book value of \$352,128.

Depreciation for the year ended November 30, 2012: \$261,511

Long-Term Debt--Modified Accrual Basis

At November 30, 2012 the Emergency Telephone System Board had no long-term debt.

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FINANCIAL STATEMENTS

Government-wide Statement of Net Assets
November 30, 2012

	Governmental Activities	
	2012	2011
<u>Assets</u>		
Current assets		
Cash	\$ 1,936,722	3,394,435
Accounts receivable	150,000	76,112
Prepaid expenses	-	25,000
Total current assets	<u>2,086,722</u>	<u>3,495,547</u>
Noncurrent assets		
Capital Assets		
Equipment	896,623	3,761,985
Construction in progress	1,527,445	-
Less: accumulated depreciation	<u>(223,247)</u>	<u>(3,216,736)</u>
Total noncurrent assets	<u>2,200,821</u>	<u>545,249</u>
Total assets	<u>\$ 4,287,543</u>	<u>4,040,796</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	\$ 988	13,049
Total current liabilities	<u>988</u>	<u>13,049</u>
Total liabilities	<u>988</u>	<u>13,049</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	2,200,821	545,249
Unrestricted	694,980	584,599
Restricted	<u>1,390,754</u>	<u>2,897,899</u>
Total net assets	<u>\$ 4,286,555</u>	<u>4,027,747</u>

The Notes to Financial Statements are an integral part of this statement.

Statement of Activities
For the Year Ended November 30, 2012

Program Activities	Expenses	Program Revenues		Net (Expenses) Revenue And Changes in Net Assets	
		Fees and Charges for Services	Operating Grants and Contributions	2012	2011
Governmental Activities:					
Public safety	\$ 2,728,464	1,189,810	-	(1,538,654)	(1,385,349)
Total governmental activities	\$ 2,728,464	1,189,810	-	(1,538,654)	(1,385,349)
General revenues					
		Interest on investments		6,664	9,347
		Kendall County		1,789,998	1,857,819
		Miscellaneous		801	8,336
		Total revenues		1,797,463	1,875,502
		Change in net assets		258,808	490,153
		Net assets at beginning of year		4,027,747	3,537,594
		Net assets at end of year		4,286,555	4,027,747

The Notes to Financial Statements are an integral part of this statement.

Balance Sheet
Governmental Funds
November 30, 2012

	Major Funds				Totals	
	General -	KenCom	Building Fund	Equipment Fund	2012	2011
	911 Board Fund	Operations Fund				
<u>Assets</u>						
Cash in bank	\$ 544,980	133,538	625,000	633,204	1,936,722	3,394,435
Accounts receivable	150,000	-	-	-	150,000	76,112
Prepaid expenses	-	-	-	-	-	25,000
Total assets	<u>\$ 694,980</u>	<u>133,538</u>	<u>625,000</u>	<u>633,204</u>	<u>2,086,722</u>	<u>3,495,547</u>
<u>Liabilities and Net Assets</u>						
Liabilities:						
Accounts payable	\$ -	988	-	-	988	13,049
Total liabilities	<u>-</u>	<u>988</u>	<u>-</u>	<u>-</u>	<u>988</u>	<u>13,049</u>
Fund balances:						
Non-spendable	-	-	-	-	-	25,000
Committed	-	-	625,000	633,204	1,258,204	2,800,000
Assigned	-	132,550	-	-	132,550	72,899
Unassigned	694,980	-	-	-	694,980	584,599
Total fund balances	<u>694,980</u>	<u>132,550</u>	<u>625,000</u>	<u>633,204</u>	<u>2,085,734</u>	<u>3,482,498</u>
Total liabilities and fund balances	<u>\$ 694,980</u>	<u>133,538</u>	<u>625,000</u>	<u>633,204</u>	<u>2,086,722</u>	<u>3,495,547</u>

The Notes to Financial Statements are an integral part of this statement.

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD

Statement C
Continued

Balance Sheet
Governmental Funds
November 30, 2012

	2012	2011
Reconciliation to Statement of Net Assets		
Fund Balances - total governmental funds	\$ 2,085,734	3,482,498
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities, net of accumulated depreciation, are not financial resources and, therefore, are not reported in the funds:		
Capital assets	2,424,068	3,761,985
Accumulated depreciation	(223,247)	(3,216,736)
Net assets of governmental activities	\$ 4,286,555	4,027,747

The Notes to Financial Statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended November 30, 2012
 (With Comparative Figures from November 30, 2011)

	Major Funds				Totals	
	General - 911 Board Fund	KenCom Operations Fund	Building Fund	Equipment Fund	2012	2011
Revenues:						
Telephone surcharges	\$ 1,167,348	1,210	-	-	1,168,558	934,361
Agency contributions	-	21,252	-	-	21,252	11,784
Kendall County	-	1,789,998	-	-	1,789,998	1,857,819
Interest income	6,664	-	-	-	6,664	9,347
Miscellaneous income	-	801	-	-	801	8,336
Total revenues	1,174,012	1,813,261	-	-	2,987,273	2,821,647
Expenses:						
Current:						
Salaries	-	1,309,032	-	-	1,309,032	1,309,706
Health insurance	-	180,543	-	-	180,543	194,637
Social security & Medicare	-	230,888	-	-	230,888	220,950
Liability insurance	-	8,936	-	-	8,936	8,936
Reoccurring monthly expenses	70,961	-	-	-	70,961	78,894
Postage and printing	194	31	-	-	225	1,336
Audit	2,000	-	-	-	2,000	1,900
Repairs and maintenance	1,980	-	-	-	1,980	2,341
Supplies	-	2,075	-	-	2,075	7,041
Mileage	-	924	-	-	924	-
Dues & subscriptions	-	949	-	-	949	-
Equipment expense	-	3,630	-	-	3,630	2,500
Radio lines	-	25,000	-	-	25,000	41,478
Leads service charges	-	10,137	-	-	10,137	15,237
Alerts	-	4,152	-	-	4,152	-
Telephone	-	2,141	-	-	2,141	-
Contingency	-	-	-	-	-	15,329
Legal expense	1,814	-	-	-	1,814	6,100
Computer supplies	1,445	-	-	-	1,445	-
Support - IT	6,438	-	-	-	6,438	-
Consultant fees	9,832	-	-	-	9,832	95,578
Training	483	5,172	-	-	5,655	1,723
Miscellaneous expense	375	-	-	-	375	-
Reverse 9-1-1	49,813	-	-	-	49,813	-
Annual maintenance	136,998	-	-	-	136,998	183,492
Lease expense	-	-	25,000	-	25,000	-
Intergovernmental:						
Reimbursements	14,298	-	-	-	14,298	1,877
Capital expenditures	-	-	-	2,278,796	2,278,796	2,986
Total expenses	296,631	1,783,610	25,000	2,278,796	4,384,037	2,192,041
Change in fund balance	877,381	29,651	(25,000)	(2,278,796)	(1,396,764)	629,606
Other financing sources/(uses)						
Transfer in	-	30,000	50,000	712,000	792,000	800,000
Transfer out	(792,000)	-	-	-	(792,000)	(800,000)
Net assets at beginning of year	609,599	72,899	600,000	2,200,000	3,482,498	2,852,893
Net assets at end of year	\$ 694,980	132,550	625,000	633,204	2,085,734	3,482,498

The Notes to Financial Statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended November 30, 2012
(With Comparative Figures from November 30, 2011)

	2012	2011
Reconciliation to the Statement of Activities		
Net change in fund balances - total governmental funds	\$ (1,396,764)	629,606
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and is reported as depreciation expense. The change in fund balance must be increased by capital purchases and decreased by depreciation expense:		
Capital asset purchases (dispositions)	1,917,084	41,151
Depreciation expense	(261,511)	(180,604)
Change in net assets of governmental activities	\$ 258,808	490,153

NOTES TO FINANCIAL STATEMENTS

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD
Notes to Financial Statements

For the Year Ended November 30, 2012

Note 1: Summary of Significant Accounting Policies

These financial statements are presented on a modified accrual basis of accounting. This modified basis of accounting is an accounting principle generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the Commission's financial statements Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified accrual basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

A. Financial Reporting Entity

The Board's financial reporting entity is composed of the following:

Governmental Unit: Kendall County Emergency Telephone System Board- In determining the financial reporting entity, the Board complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The Kendall County Emergency Telephone System Board was authorized by a resolution of the Kendall County Board of Commissioners in November 1988.

The Kendall County Emergency Telephone System Board shall be the overseer of the enhanced 9-1-1 Project. It will ensure, but not be limited to, the timely implementation of the Enhanced 9-1-1 Project and administer the funds that will be generated from telephone surcharges beginning April 1, 1989.

B. Basic Financial Statements – Government-wide Statements

The Board's basic financial statements include both government-wide (reporting the Board as a whole) and fund financial statements (reporting the Board's major funds). Both the government-wide and fund financial statements categorize primary activities as governmental.

In the Government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Board's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Board first utilizes restricted resources to finance qualifying activities.

The Government-wide Statement of Activities reports both the gross and net cost of each of the Board's functions. The functions are also supported by general government revenues (intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (Public Safety).

The net costs (by function) are normally covered by general revenues.

The Statement of Activities focuses on the sustainability of the Board as an entity and the change in the Board's net assets resulting from the current year's activities.

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD
Notes to Financial Statements

For the Year Ended November 30, 2012

Note 1: Summary of Significant Accounting Policies (continued)

C. Basic Financial Statements – Fund Financial Statements

The financial transactions of the Board are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that are comprised of its assets, liabilities, reserves, fund balances, revenues, and expenditures. The various funds are reported by generic classification within the financial statements. The emphasis in fund financial statements is on the major funds in the governmental activities categories. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and;
- b. Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

The Board has elected to present all of its funds as major funds.

All of the funds used by the Board are *Governmental Funds*.

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the Board:

- a. The General (911 Board) Fund is the general operating fund of the County and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes. Major Special Revenue Funds identified are as follows:
 1. KenCom Operations Fund – this fund is used to account for revenues and expenditures related to the 911 Program Operations.
 2. Building Fund – This fund is used to account for activities related to the 911 Building.
 3. Equipment Fund – This fund is used to account for activities related to 911 equipment.

D. Measurement Focus and Basis of Accounting

Measurement Focus

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD
Notes to Financial Statements

For the Year Ended November 30, 2012

Note 1: Summary of Significant Accounting Policies (continued)

D. Measurement Focus and Basis of Accounting (continued)

In the Government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus.

In the fund financial statements, governmental activities are presented using the “current financial resources” measurement focus or the “economic resources” measurement focus.

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balances as the measure of available spendable financial resources at the end of the period.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All of the funds are maintained during the year by the Board using the cash basis of accounting. At the end of the year, the financial statements are converted to the modified accrual basis of accounting through the posting of journal entries.

1. Accrual:

The governmental activities in the government-wide financial statements are presented using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental fund financial statements are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

The Board has reported three categories of program revenues in the statement of activities: (1) charges for services (2) program-specific operating grants and contributions, and (3) program-specific capital grants and contributions. Program revenues are derived directly from the program itself or from external sources; they reduce the net cost of each function to be financed from the County’s general revenues. For identifying the function to which grants and contributions pertain, the determining factor is the function to which the revenues are restricted. The determining factor for charges for services is the function that generates the revenue.

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD
Notes to Financial Statements

For the Year Ended November 30, 2012

Note 1: Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities, and Fund Balance

Cash and Cash Equivalents

The Board considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received.

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Machinery, furniture, and equipment	3-20 years
-------------------------------------	------------

Fund Balance Classification

In the Government-wide Financial Statements, Fund Balance is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the Board’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

F. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Board’s financial position and operations.

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD
Notes to Financial Statements

For the Year Ended November 30, 2012

Note 1: Summary of Significant Accounting Policies (continued)

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Note 2: Cash and Investments

Permitted Deposits and Investments – Statutes authorize the Board to make deposits/investments in commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, obligations of states and their political subdivisions, credit union shares, repurchase agreements, commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Public Treasurer’s Investment Pool.

Interest Rate Risk - The Board does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk is the risk that in the event of a bank failure, the Board’s deposits may not be returned to it. The Board’s custodial credit risk policy is included in a formal written investment and cash management plan.

The Board’s deposits and certificates of deposits are required to be covered by federal depository insurance (FDIC) or by securities held by the pledging financial institution. The FDIC currently insures the first \$250,000 of the Board’s deposits at each financial institution. Effective December 31, 2010 through December 31, 2012, the FDIC will insure 100% of all non-interest bearing accounts. Deposit balances over \$250,000 are collateralized with securities held by the pledging financial institution.

At November 30, 2012, the carrying amount of the Board’s deposits was \$1,936,722 and the bank balance was \$1,944,527. The deposits are categorized in accordance with custodial credit risk factors created by governmental reporting standards as follows:

	Carrying Amount	Bank Balance
Category #1	\$ -	-
Category #2	1,686,722	1,694,527
Category #3	250,000	250,000
Totals	<u>\$ 1,936,722</u>	<u>1,944,527</u>

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD

Notes to Financial Statements

For the Year Ended November 30, 2012

Note 2: Cash and Investments (continued)

Category #1	Uncollateralized deposits;
Category #2	Collateralized with securities held by the pledging financial institution in the Board's name;
Category #3	Collateralized with securities held by the pledging financial institution's trust department or agent but not in the Board's name.

Note 3: Changes in Capital Assets

	Balance as of December 1, 2011	Additions	Deletions	Balance as of November 30, 2012
Governmental Activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	1,527,445	-	1,527,445
Total capital assets not being depreciated	<u>-</u>	<u>1,527,445</u>	<u>-</u>	<u>1,527,445</u>
Depreciable capital assets:				
Equipment	3,761,985	741,766	3,607,128	896,623
Total depreciable capital assets	<u>3,761,985</u>	<u>741,766</u>	<u>3,607,128</u>	<u>896,623</u>
Less - accumulated depreciation:				
Equipment	3,216,736	261,511	3,255,000	223,247
Total accumulated depreciation	<u>3,216,736</u>	<u>261,511</u>	<u>3,255,000</u>	<u>223,247</u>
Governmental activities capital assets, net	<u>\$ 545,249</u>	<u>2,007,700</u>	<u>352,128</u>	<u>2,200,821</u>

Total depreciation expense of \$261,511 is charged to the public safety function for the year ended November 30, 2012.

During the year ended November 30, 2012, obsolete equipment with a net value of \$352,128 was removed from the capital assets total.

Note 4: Expenditures in Excess of Appropriations

Building Fund expenditures exceeded appropriations by \$25,000, and Equipment Fund expenditures exceeded appropriations by \$2,278,796 in the current year, as budgets were not adopted for these two funds.

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD
Notes to Financial Statements

For the Year Ended November 30, 2012

Note 5: KenCom Operations Fund – Intergovernmental Agreement

The ETSB has entered into an intergovernmental agreement with Kendall County and various other municipalities to provide centralized dispatching services. Under the agreement, the County will pay \$1.775 million to KenCom each year. Municipalities who are party to the agreement will make annual contributions to KenCom each year based on each District's percentage of the total call volume. Agencies will be billed November 30th of each year. The Village of Oswego and the Cities of Yorkville and Plano paid \$0 under the agreement in 2012 and will pay \$37,000, \$22,000 and \$16,000, respectively, each year through November 30, 2014. Thereafter, those municipalities will be billed in the same manner as all other municipalities party to the agreement.

Note 6: Leases

The Board has a lease agreement for the basement of the Public Safety Center from Kendall County under which it the Board to pay \$100,000 annually in quarterly installments of \$25,000. The lease is effective September 1, 2012 through August 1, 2022, and provides for the option of two ten-year extensions. Through the lease payments, the Board will reimburse the County for costs incurred to construct the build-out of the Public Safety Center basement for emergency 911 purposes.

The Board paid \$25,000 to Kendall County during the year ended November 30, 2012 under this lease agreement. Amounts payable for the remainder of the agreement are as follows:

Year ending November 30,	
2013	\$ 100,000
2014	100,000
2015	100,000
2016	100,000
2017	100,000
2018	100,000
2019	100,000
2020	100,000
2021	100,000
2022	75,000

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD
Notes to Financial Statements

For the Year Ended November 30, 2012

Note 6: Interfund Transactions

During the course of normal operations, the Board has transactions between funds, including expenditures and transfers of resources primarily to provide services. The governmental funds reflect such transactions as transfers or reimbursements. Transfers between funds during the year ended November 30, 2012 were as follows:

<u>Fund</u>	<u>Transfers Out</u>	<u>Transfers In</u>
General - 911 Board - Fund	\$ 792,000	-
KenCom Operations Fund	-	30,000
Building Fund	-	50,000
Equipment Fund	-	712,000
Total transfers	<u>\$ 792,000</u>	<u>792,000</u>

Transfers are often made between funds in order to cover operating expenses of funds that do not possess their own revenue sources or have not received sufficient revenue to cover expenses in the current fiscal year. In the current year, the General Fund transferred \$30,000 to the KenCom Operations Fund for management salaries, \$50,000 to the Building Fund for payment of lease expenses, and \$712,000 to the Equipment Fund for purchase of capital assets.

Note 7: Fund Balance – GASB 54 Presentation

According to Government Accounting Standards, fund balances are to be classified into five major classifications: Non-spendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance. Below are definitions of the differences and a reconciliation of how these balances are reported.

A. Non-spendable Fund Balance

The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example inventories and prepaid amounts.

B. Restricted Fund Balance

The restricted fund balance classification refers to amounts that are subject to outside restrictions, not controlled by the entity. Things such as restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The Board does not have any funds that fall into these categories.

KENDALL COUNTY EMERGENCY TELEPHONE SYSTEM BOARD
Notes to Financial Statements

For the Year Ended November 30, 2012

Note 7: Fund Balance – GASB 54 Presentation

C. Committed Fund Balance

The committed fund balance classification refers to amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority (the Emergency Telephone System Board). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of formal action it employed to previously commit those amounts.

The Board commits fund balance by making motions or passing resolutions to adopt policy or to approve contracts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Building Fund balance has been committed for payment of the lease and related building expenses, and the Equipment Fund balance has been committed for purchases of capital equipment by the Board.

D. Assigned Fund Balance

The assigned fund balance classification refers to amounts that are constrained by the government's intent to be used for a specific purpose, but are neither restricted nor committed. Intent may be expressed by (a) the Board itself or (b) the finance committee when the Board has delegated the authority to assign amounts to be used for specific purposes. The KenCom Operations Fund balance has been assigned by the Board for payment of operating expenses related to emergency 911 services.

E. Unassigned Fund Balance

The unassigned fund balance classification is the residual classification for amounts in the General Funds for amounts that have not been restricted, committed, or assigned to specific purposes within the General Funds.

<u>Fund</u>	<u>Non- spendable</u>	<u>Committed</u>	<u>Assigned</u>	<u>Restricted</u>	<u>Unassigned</u>	<u>Total Fund Balance</u>
General - 911 Board - Fund	\$ -	-	-	-	694,980	694,980
KenCom Operations Fund	-	-	132,550	-	-	132,550
Building Fund	-	625,000	-	-	-	625,000
Equipment Fund	-	633,204	-	-	-	633,204
Totals	\$ -	1,258,204	132,550	-	694,980	2,085,734

REQUIRED SUPPLEMENTARY INFORMATION

KENDALL COUNTY TELEPHONE SYSTEM BOARD
GENERAL - 911 BOARD FUND

Schedule A-1.

Balance Sheet
November 30, 2012

	<u>Assets</u>	
Cash in bank		\$ 544,980
Accounts receivable		<u>150,000</u>
Total assets		<u>\$ 694,980</u>
	<u>Fund Balance</u>	
Unassigned Fund Balance		<u>\$ 694,980</u>
Total liabilities and fund balance		<u>\$ 694,980</u>

KENDALL COUNTY TELEPHONE SYSTEM BOARD
GENERAL - 911 BOARD FUND

Schedule A-2

Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended November 30, 2012
(With Comparative Figures from November 30, 2011)

	Original & Final Budget	Year Ended November 30,	
		2012	2011
Revenues			
Telephone surcharges	\$ 940,000	1,167,348	934,361
Miscellaneous income	-	-	2,125
Interest income	8,000	6,664	9,347
Total revenues	948,000	1,174,012	945,833
Expenditures			
Current:			
Reoccurring monthly expenses	100,000	70,961	78,894
Postage and printing	200	194	144
Audit	2,500	2,000	1,900
Repairs and maintenance	-	1,980	-
Equipment expense	-	-	2,500
Contingency	50,000	-	15,329
Legal expense	-	1,814	6,100
Computer supplies	-	1,445	-
Support - IT	-	6,438	5,550
Consultant fees	10,000	9,832	90,028
Training	6,000	483	326
Miscellaneous expense	-	375	-
Reverse 9-1-1	54,000	49,813	-
Annual maintenance	150,000	136,998	167,302
Intergovernmental:			
Will surcharge reimbursement	8,000	4,900	6,827
Kane surcharge reimbursement	14,500	9,398	11,950
Capital expenditures	-	-	44,137
Total expenditures	395,200	296,631	430,987
Excess of revenues over (under) expenditures	552,800	877,381	514,846
Other financing sources/(uses)			
Transfer to Building	(50,000)	(50,000)	(100,000)
Transfer to Equipment	(750,000)	(712,000)	(700,000)
Transfer to KenCom Operations	(47,000)	(30,000)	-
Fund balance, beginning of year		609,599	894,753
Fund balance, end of year		694,980	609,599

**KENDALL COUNTY TELEPHONE SYSTEM BOARD
KENCOM OPERATIONS FUND**

Schedule B-1

**Balance Sheet
November 30, 2012**

	<u>Assets</u>	
Cash in bank		<u>\$ 133,538</u>
Total assets		<u>\$ 133,538</u>
	<u>Liabilities and Fund Balance</u>	
Accounts payable		<u>\$ 988</u>
Total liabilities		988
Assigned fund balance		<u>132,550</u>
Total liabilities & fund balance		<u>\$ 133,538</u>

KENDALL COUNTY TELEPHONE SYSTEM BOARD
 KENCOM OPERATIONS FUND

Schedule B-2

Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Year Ended November 30, 2012
 (With Comparative Figures from November 30, 2011)

	Original & Final Budget	Year Ended November 30,	
		2012	2011
Revenues			
District contributions	\$ 29,020	21,252	11,784
Alarm monitoring	1,850	1,210	-
Miscellaneous income	-	801	6,211
Kendall County	1,775,000	1,789,998	1,857,819
Total revenues	1,805,870	1,813,261	1,875,814
Expenditures			
Current:			
Salary	1,276,638	1,261,896	1,248,336
Holiday pay	61,200	47,136	61,370
Health insurance	206,500	180,543	194,637
Social security/ medicare	260,813	230,888	220,950
Liability insurance	8,936	8,936	8,936
Supplies	3,000	2,075	1,682
Mileage	2,000	924	1,052
Postage	350	31	11
Books/subscriptions	200	-	-
Dues/subscriptions	1,500	949	2,325
Training conferences	2,000	715	1,397
Equipment maintenance	6,000	3,630	2,341
Printing/publications	750	-	1,181
Radio lines	-	25,000	41,478
Training	6,000	4,457	-
Leads service charges	10,530	10,137	15,237
Alerts	4,200	4,152	-
Employee screening	1,000	-	91
Telephone	2,500	2,141	1,891
Total expenditures	1,854,117	1,783,610	1,802,915
Excess of revenues over (under) expenditures	(48,247)	29,651	72,899
Other financing sources (uses):			
Transfer from ETSB	-	30,000	-
Net change in fund balance	\$ (48,247)	59,651	72,899
Fund balance, beginning of year		72,899	-
Fund balance, end of year		132,550	72,899

**KENDALL COUNTY TELEPHONE SYSTEM BOARD
BUILDING FUND**

Schedule C-3

**Balance Sheet
November 30, 2012**

<u>Assets</u>	
Cash in bank	<u>\$ 625,000</u>
<u>Fund Balance</u>	
Committed fund balance	<u>\$ 625,000</u>

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended November 30, 2012
(With Comparative Figures from November 30, 2011)**

Schedule C-4

	<u>Original & Final Budget</u>	<u>Year Ended November 30,</u>	
		<u>2012</u>	<u>2011</u>
Total revenues	\$ -	-	-
Expenditures			
Current:			
Lease payment	-	25,000	-
Total expenditures	-	25,000	-
Excess of revenues over (under) expenditures	-	(25,000)	-
Other financing sources/(uses)			
Transfer from 911 Fund	<u>\$ 50,000</u>	50,000	100,000
Fund balance, beginning of year		600,000	500,000
Fund balance, end of year		<u>625,000</u>	<u>600,000</u>

**KENDALL COUNTY TELEPHONE SYSTEM BOARD
EQUIPMENT FUND**

Schedule D-1

**Balance Sheet
November 30, 2012**

<u>Assets</u>	
Cash in bank	<u>\$ 633,204</u>
<u>Fund Balance</u>	
Committed fund balance	<u>\$ 633,204</u>

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended November 30, 2012
(With Comparative Figures from November 30, 2011)**

Schedule D-2

	<u>Original & Final Budget</u>	Year Ended November 30,	
		<u>2012</u>	<u>2011</u>
Total revenues	\$ -	-	-
Expenditures			
Capital expenditures:			
Equipment expense	-	2,278,796	-
Total expenditures	-	2,278,796	-
Excess of revenues over (under) expenditures	\$ -	(2,278,796)	-
Other financing sources/(uses)			
Transfers In	<u>\$ 700,000</u>	712,000	700,000
Fund balance, beginning of year		<u>2,200,000</u>	<u>1,500,000</u>
Fund balance, end of year		<u>633,204</u>	<u>2,200,000</u>



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Report on Internal Control over Financial Reporting and on Compliance
And Other Matters Based on an Audit of Financial Statements Performed
in Accordance With Government Auditing Standards

To The Board of Directors
Kendall County Emergency
Telephone System Board
Yorkville, Illinois

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kendall County Emergency Telephone System Board, Kendall County, Illinois, as of and for the year ended November 30, 2012, which collectively comprise the Kendall County Emergency Telephone System Board's basic financial statements, and have issued our report thereon dated January 10, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kendall County Emergency Telephone System Board'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 Kendall County Emergency Telephone System Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kendall County Emergency Telephone System Board's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kendall County Emergency Telephone Systems Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mack & Associates, P.C.

MACK & ASSOCIATES, P.C.
Certified Public Accountants

Morris, Illinois
January 10, 2013