

Loudon County Emergency Communications District

**Financial Statements with Accompanying Information
Year Ended June 30, 2012**

with
Independent Auditors' Report

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

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Independent Auditors' Report

Board of Directors
Loudon County Emergency Communications District
Loudon, Tennessee

We have audited the accompanying balance sheet of the Loudon County Emergency Communications District (the "District"), a component unit of Loudon County, Tennessee, as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2012, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 the 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 response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the District's financial statements taken as a whole. The accompanying information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of revenues and expenses compared to budget on pages 19 thru 21 and the schedule of expenditures of federal awards on page 24 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The schedule of insurance in force on page 22 and the roster of officials on page 23 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, accordingly, we do not express an opinion or provide any assurance on them.

HG & A Associates, P.C.

November 12, 2012

Loudon County Emergency Communications District

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MANAGEMENT'S DISCUSSION and ANALYSIS

Our discussion and analysis of the Loudon County Emergency Communications District's (the "District") financial performance provides an overview of the District's activities for the year ended June 30, 2012. Please read it in conjunction with the District's financial statements, as listed in the table of contents.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The balance sheet and the statement of revenues, expenses and changes in net assets provide information about the District as a whole and present a long-term view of the District's finances.

THE BALANCE SHEET AND THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of this year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net assets report information about the District and about its activities that help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets - the difference between assets and liabilities - as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating.

CONDENSED BALANCE SHEET

The analysis below focuses on the net assets and changes in net assets of the District.

| | <u>2012</u> | <u>2011</u> |
|----------------------------------|---------------------|------------------|
| Current assets | \$ 527,984 | 494,814 |
| Restricted assets | 27,986 | 18,905 |
| Capital assets | <u>1,918,899</u> | <u>2,059,363</u> |
| Total Assets | \$ <u>2,474,869</u> | <u>2,573,082</u> |
| | | |
| Current liabilities | \$ 75,057 | 135,797 |
| Noncurrent liabilities | <u>1,148,594</u> | <u>1,190,802</u> |
| Total Liabilities | <u>1,223,651</u> | <u>1,326,599</u> |
| Net assets: | | |
| Invested in capital assets | 728,094 | 828,052 |
| Restricted assets | 27,986 | 18,905 |
| Unrestricted | <u>495,138</u> | <u>399,526</u> |
| Total Net Assets | <u>1,251,218</u> | <u>1,246,483</u> |
| Total Liabilities and Net Assets | \$ <u>2,474,869</u> | <u>2,573,082</u> |

Total net assets of the District increased approximately 3.8% during the current year, as opposed to last year's 13.6% increase. Unrestricted net assets, the part of net assets used to finance day-to-day operations, increased by approximately 23.9% from the prior year. The increase in total net assets was due primarily to an increase in emergency telephone charges from a one-time settlement with AT&T. The increase in unrestricted net assets is primarily as a result of the reduction in the invested in capital assets portion of net assets from depreciation increases exceeding the asset acquisitions.

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS**

| | <u>2012</u> | <u>2011</u> |
|---------------------------------------|---------------------|------------------|
| Revenues: | | |
| Emergency telephone charges | \$ 239,027 | 209,189 |
| Tennessee ECB shared wireless charges | 113,022 | 102,181 |
| Tennessee ECB operational funding | <u>183,173</u> | <u>183,153</u> |
| Total operating revenues | 535,222 | 494,523 |
| Total operating expenses | <u>1,060,241</u> | <u>1,050,947</u> |
| Operating loss | (525,019) | (556,424) |
| Non-operating revenues | 579,788 | 760,812 |
| Non-operating expenses | <u>(50,034)</u> | <u>(54,793)</u> |
| Change in net assets | 4,735 | 149,595 |
| Net assets – beginning of year | <u>1,246,483</u> | <u>1,096,888</u> |
| Net assets – end of year | \$ <u>1,251,218</u> | <u>1,246,483</u> |

The operations of the District (a component unit of Loudon County, Tennessee) are primarily funded as follows:

| | |
|---|---------------|
| Emergency telephone surcharges | 21.5% |
| State of Tennessee shared wireless fee | 10.1% |
| State of Tennessee Communications Board – operational funding | 16.4% |
| State of Tennessee Communications Board – grants and reimbursements | 3.5% |
| Contributions from primary government | 48.4% |
| Interest income | <u>.1%</u> |
| Total funding | <u>100.0%</u> |

Operational costs for the E911 Center were \$1,060,241 for the fiscal year ended June 30, 2012, an increase of only \$9,294 from the prior year. This change was primarily as a result of the following: (1) increase in salaries and wages of \$13,680, (2) increase in employee benefits of \$14,165, and (3) a decrease in depreciation of \$15,299.

CAPITAL ASSETS

At the fiscal year ended June 30, 2012, the District had \$2,638,580 in capital assets, a decrease of \$208,298 over the last year's balance of \$2,846,878. This change is as result of the following: (1) purchase of a Jeep, office furniture and communications equipment totaling \$26,307 and (2) the removal of \$234,605 of capital assets that are fully depreciated and no longer useable within the District's operations. Additional information concerning the capital assets of the District can be found on page 14 of this report.

DEBT

At the fiscal year end the District's outstanding debt consists of revenue bonds held by the USDA office of Rural Development. The \$1,500,000 of proceeds from the issuance of Emergency Communications District Revenue Bonds, Series 2007 in May 2009 were used to retire the draws on the interim financing construction loan used to partially pay for the costs of the District's new facility and furnished equipment completed in 2009. The total amount outstanding on the revenue bonds at June 30, 2012 totaled \$1,190,805 due to the retirement of \$40,506 this year. Additional information can be found on pages 14 and 15 of this report.

BUDGETS

There were amendments to the originally adopted budget for the fiscal year ending June 30, 2012 reducing that budget by \$86,473.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The District's future budget plans will take into account the following actions: (1) continued support for covering the employment costs for dispatch services through its contract with Loudon County government, (2) expected continued operational funding through the State of Tennessee's Emergency Communications Board to assist the District's overall operations, (3) the approval by the Tennessee Emergency Communications Board to increase phone surcharge fees effective January 2013 and (4) continuing to seek support from local communities within the County that receive dispatch services and currently are not contributing for that coverage.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general view of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Director of the Loudon County Emergency Communications District, 500 John Parris Drive, Loudon, Tennessee 37774.

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Balance Sheet

June 30, 2012

| | |
|---|---------------------|
| <u>Assets</u> | |
| Current assets: | |
| Cash | \$ 396,283 |
| Certificates of deposit | 58,627 |
| Accounts receivable: | |
| Surcharges and wireless commissions | 40,510 |
| Prepaid expenses | 32,564 |
| Total current assets | <u>527,984</u> |
| Restricted assets: | |
| USDA debt reserve funds | <u>27,986</u> |
| Capital assets: | |
| Building and improvements | 1,664,200 |
| Furniture and fixtures | 71,242 |
| Office equipment | 45,635 |
| Communication equipment | 800,714 |
| Vehicles | 56,789 |
| | <u>2,638,580</u> |
| Less: allowance for depreciation | 719,681 |
| Total capital assets | <u>1,918,899</u> |
| | <u>\$ 2,474,869</u> |
| <u>Liabilities and Net Assets</u> | |
| Current liabilities: | |
| Bonds payable - current | \$ 42,211 |
| Accounts payable | 3,774 |
| Accrued payroll and related taxes | 18,667 |
| Accrued compensated absences | 9,741 |
| Accrued interest payable | 664 |
| Total current liabilities | <u>75,057</u> |
| Bonds payable - long-term | 1,148,594 |
| Total liabilities | <u>1,223,651</u> |
| Net assets: | |
| Invested in capital assets, net of related debt | 728,094 |
| Restricted assets | 27,986 |
| Unrestricted net assets | 495,138 |
| Total net assets | <u>1,251,218</u> |
| | <u>\$ 2,474,869</u> |

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

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2012

| | |
|---------------------------------------|----------------------------|
| Operating revenue: | |
| Emergency telephone surcharges | \$ 239,027 |
| TECB - shared wireless charges | 113,022 |
| TECB - operational funding | 183,173 |
| Total operating revenue | <u>535,222</u> |
| Operating expenses: | |
| Salaries and wages | 544,305 |
| Employee benefits | 169,422 |
| Contracted services | 69,702 |
| Supplies and materials | 72,782 |
| Depreciation | 166,772 |
| Other charges | 37,258 |
| Total operating expense | <u>1,060,241</u> |
| Operating loss | <u>(525,019)</u> |
| Nonoperating revenue (expenses): | |
| Interest income | 819 |
| Contributions from primary government | 540,000 |
| TECB - grants and reimbursements | 38,957 |
| Miscellaneous income | 12 |
| Interest expense | (50,034) |
| Total nonoperating revenue (expense) | <u>529,754</u> |
| Change in net assets | 4,735 |
| Total net assets - beginning of year | <u>1,246,483</u> |
| Total net assets - end of year | <u><u>\$ 1,251,218</u></u> |

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

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Statement of Cash Flows

For the Year Ended June 30, 2012

| | |
|---|-------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 538,653 |
| Cash payments for goods and services | (188,066) |
| Cash payments for employees and related benefits | <u>(776,058)</u> |
| Net cash used in operating activities | <u>(425,471)</u> |
| Cash flows from noncapital financing activities: | |
| Contributions from primary government | 540,000 |
| Grants and reimbursements from TECB | <u>38,957</u> |
| Net cash provided by noncapital financing activities | <u>578,957</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (26,307) |
| Payments on bonds payable | (40,506) |
| Interest paid on bonds payable | <u>(50,034)</u> |
| Net cash used in capital and related financing activities | <u>(116,847)</u> |
| Cash flows from investing activities: | |
| Interest received | 819 |
| Increase in certificate of deposit | <u>(217)</u> |
| Net cash provided by investing activities | <u>602</u> |
| Net increase in cash | 37,241 |
| Cash - beginning of the year | <u>387,028</u> |
| Cash - end of the year | <u>\$ 424,269</u> |
| | |
| Cash | \$ 396,283 |
| Restricted assets | <u>27,986</u> |
| | <u>\$ 424,269</u> |

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Statement of Cash Flows (continued)

For the Year Ended June 30, 2012

| | |
|---|---------------------|
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ <u>(525,019)</u> |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation | 166,772 |
| Other nonoperating income (expenses), net | 12 |
| Changes in operating assets and liabilities: | |
| Decrease in accounts receivable | 3,431 |
| Increase in prepaid expenses | (8,225) |
| Decrease in accounts payable | (111) |
| Increase in accrued payroll and related taxes | 4,047 |
| Decrease in retirement contributions payable | (67,485) |
| Increase in accrued compensated absences payable | <u>1,107</u> |
| Total adjustments | <u>99,548</u> |
| Net cash used in operating activities | <u>\$ (425,471)</u> |

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

LOUDON COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies

(a) Nature of Business

The Loudon County Emergency Communications District (the "District"), commonly referred to as E-911, was established to provide services under the Emergency Communications District Law, Tennessee Code Annotated, Chapter 86. The District was created by a resolution of the Loudon County Commissioners on September 12, 1989, and subsequently approved by public referendum. Under its enabling legislation, the District is a municipality with powers of perpetual success but without any power to levy or collect taxes. Charges for services authorized shall not be considered as taxes. The powers of the District are vested in and exercised by a majority of the members of the board of directors of the District who are appointed by the District's primary government.

The District is a discretely presented component unit of Loudon County, Tennessee and the financial statements are presented in both the District's separate financial report and within the Loudon County, Tennessee report. The District is considered a discretely presented component unit of Loudon County, Tennessee as defined under the criteria set forth in Governmental Accounting Standards Board Statement 14 because the District is unable to issue debt without going through Loudon County, Tennessee.

(b) Basis of Accounting

The financial statements of the District are reported on the accrual basis. In accordance with the Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts issued by the Tennessee Office of the Comptroller of the Treasury, the District is required to apply all pronouncements of the Governmental Accounting Standards Board (GASB) and pronouncements of the Financial Accounting Standards Board (FASB) issued prior to November 30, 1989 that do not conflict with those of the GASB. After November 30, 1989 the District is required to follow only GASB guidance and not follow any FASB guidance issued after that date.

(c) Cash and Cash Equivalents

The District considers all unrestricted deposits and highly liquid investments with original maturities of three months or less to be cash equivalents.

(d) Receivables

Accounts receivable, which are deemed uncollectible based on a periodic review of the accounts, are charged to revenue. At June 30, 2012, no allowance for uncollectible accounts was considered necessary. The accounts receivable balance of \$40,510 primarily represents amounts due from AT&T for the surcharge on Loudon County telephone services for the month of June 2012 and wireless commissions due from the State of Tennessee for May through June, 2012.

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies (continued)

(e) Capital Assets

Capital assets, which include a building, communications equipment, office furnishings and equipment and vehicles, are defined as assets with an initial, individual cost of more than \$5,000 (as changed by Board approval from \$2,500 effective June 12, 2012) and an estimated useful life in excess of two years. Such assets are stated at historical cost, less accumulated depreciation computed on the straight-line method over their estimated useful lives as follows: buildings – forty years; office equipment and furnishings - three to seven years; communications equipment and vehicles – five to ten years. When assets are retired or otherwise disposed of, the average cost is removed from the asset account and the accumulated depreciation account. Removal cost, less any salvage value, is charged or credited to the accumulated depreciation account. The cost of maintenance and repairs is charged to earnings as incurred.

(f) 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. Accordingly, actual results could differ from those estimates.

(g) Compensated Absences

The District has adopted the policy of Loudon County, Tennessee, which permits its employees to accumulate, in varying amounts, earned but unused vacation and sick pay benefits. Annual vacation time accrues based upon years of service for full-time employees (40 hours per week) and on a pro rata basis for employees that are part-time. Vacation may be carried over up to a maximum of 30 days. Each January 1st, all unused vacation above the 30 day maximum is converted to sick leave. Sick leave accrues in a similar method to vacation time; however, paid sick leave is a benefit and privilege and not a right or compensation and thus will not be paid out at termination of employment.

\$9,741 has been recorded as accrued vacation pay for this reporting period.

(h) Tax Status

Because the District was incorporated as a political subdivision under the Tennessee Emergency Communications District Law, it is exempt from federal income taxes.

LOUDON COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements June 30, 2012

2. Budgetary Control

The District's Board formally approves the annual budget prepared by the E-911 Director based upon anticipated revenues and estimated operating expenses. The budget is adopted on a basis consistent with generally accepted accounting principles except that the budgeted cost of capital assets purchased is included as an expenditure. The District is required by Section 7-86-120, Tennessee Code Annotated, to adopt and operate under an annual budget. In addition, the Accounting and Financial Reporting Manual for Tennessee Emergency Communication Districts established the legal level of control, which is defined to be the line item. Budgeted amounts lapse at the end of the fiscal year and no unexpended balances are carried to the subsequent year. Budgeted expenses may be amended, as needed to meet changing needs.

3. Deposits

Custodial credit risk for the District's deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2012, the carrying amount of deposits was \$482,896 and the bank balances were \$488,746. As required by state statutes, the District's policy is to require financial institutions holding its deposits to be members of the Tennessee Collateral Pool or pledge collateral for deposits in excess of federal depository insurance. At June 30, 2012, none of the District's bank balances was exposed to credit risk.

4. Revenue

The District's primary sources of revenues are from surcharges imposed on Loudon County telephone services (net of administrative fees paid to the telephone companies) and from surcharges imposed on cell phone services, which are collected and disbursed by the Tennessee Emergency Communications Board.

5. 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. In order to minimize its costs, the District insures itself against potential losses associated with these risks through the purchase of commercial insurance. There were no significant reductions in limits of liability or coverage of insurance policies in effect during 2012 from those in effect in 2011 and 2010. In addition, there have been no losses in excess of insurance coverage during the past three fiscal years.

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2012

6. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

| <u>Cost</u> | <u>Balance July 1, 2011</u> | <u>Additions</u> | <u>Retirements and Transfers</u> | <u>Balance June 30, 2012</u> |
|-------------------------------------|---------------------------------|------------------|--|----------------------------------|
| Capital assets, being depreciated: | | | | |
| Building and improvements | \$ 1,664,200 | - | - | 1,664,200 |
| Vehicles | 39,557 | 17,232 | - | 56,789 |
| Furniture and fixtures | 90,440 | 3,026 | (22,224) | 71,242 |
| Office equipment | 92,456 | - | (46,821) | 45,635 |
| Communication equipment | 960,225 | 6,049 | (165,560) | 800,714 |
| | <u>2,846,878</u> | <u>26,307</u> | <u>(234,605)</u> | <u>2,638,580</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | (104,038) | (41,605) | - | (145,643) |
| Vehicles | (35,518) | (4,476) | - | (39,994) |
| Furniture and fixtures | (48,304) | (10,141) | 22,224 | (36,221) |
| Office equipment | (88,229) | (1,615) | 46,821 | (43,023) |
| Communication equipment | (511,426) | (108,934) | 165,560 | (454,800) |
| | <u>(787,515)</u> | <u>(166,771)</u> | <u>234,605</u> | <u>(719,681)</u> |
| Total assets being depreciated, net | <u>\$ 2,059,363</u> | <u>(140,464)</u> | <u>-</u> | <u>1,918,899</u> |

7. Bonds Payable

Emergency Communications District Revenue Bond, Series 2007, for \$1,500,000 was issued May 26, 2009 for the purpose of paying the majority of the costs to construct and equip a new facility to house the District's operations. The bonds are payable in two hundred and forty (240) monthly principal and interest payments in the amount of \$7,545, at an interest rate of 4.125%. The remaining number of monthly payments was reduced due to an additional \$200,000 paid on the bonds during fiscal year 2011. These bonds are payable solely from and secured by a pledge of the income and revenues to be derived from the operations of the District and by a statutory lien on the District's system. Interest expense totaled \$50,034 in 2012 and the balance outstanding on the bonds at June 30, 2012 is \$1,190,805.

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2012

7. Bonds Payable (continued)

Change in debt during the year ended June 30, 2012 is as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending Balance</u> | <u>Due in One Year</u> |
|-----------------|------------------------------|------------------|--------------------|---------------------------|----------------------------|
| Long-term debt: | | | | | |
| Revenue bonds: | | | | | |
| Series 2007 | \$ 1,231,311 | - | 40,506 | 1,190,805 | 42,211 |

Aggregate maturities of bonds payable are as follows:

| <u>Year ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|---------------------|-----------------|------------------|
| 2013 | \$ 42,211 | 48,329 | 90,540 |
| 2014 | 43,986 | 46,554 | 90,540 |
| 2015 | 45,835 | 44,705 | 90,540 |
| 2016 | 47,762 | 42,778 | 90,540 |
| 2017 | 49,770 | 40,770 | 90,540 |
| 2018 - 2022 | 282,048 | 170,652 | 452,700 |
| 2023 - 2027 | 346,532 | 106,168 | 452,700 |
| 2028 - 2030 | 332,658 | 120,042 | 452,700 |
| | <u>\$ 1,190,805</u> | <u>619,998</u> | <u>1,810,800</u> |

8. Dispatch Service Agreement

Beginning January 1, 2010 the District entered into an agreement with Loudon County, Tennessee to take over the employment of the personnel managing and operating the communications system and to provide the necessary 911, emergency and non-emergency dispatch services for Loudon County, Tennessee from the District's location. In exchange for this coverage Loudon County, Tennessee will provide funding up to the amount of \$540,000 with annual renewals subject to withdrawal or termination provisions for either party as detailed in the agreement. There has not been any change to the agreement during this fiscal year.

9. Agreement for Office Space

The District entered into an agreement with Loudon County, Tennessee in which it received a contribution, in October 2006, to be used for the construction of the E-911 Center. In return, the District has made available to Loudon County offices and emergency operations space for the Emergency Management Agency (EMA), a subsidiary of Loudon County, Tennessee for up to thirty years, with an extension possible upon mutual agreement of both parties.

LOUDON COUNTY EMERGENCY COMMUNICATIONS DISTRICT

Notes to Financial Statements
June 30, 2012

10. Operating Leases

Operating leases in place during the year are as follows;

- During fiscal year 2005, the District sold its Mobile 911 Center to Loudon County, Tennessee and then entered into a lease agreement with Loudon County, Tennessee, to lease the facility for one dollar per year.
- On October 5, 2006, the District entered into a lease agreement with Loudon Utilities Board for a ground lease on the site of its operating center. The term of the lease is for thirty years from the date of the agreement and may be extended upon mutual consent of both parties. The lease payment to Loudon Utilities Board is for one dollar per year.

11. Employee Retirement Plan

Plan Description

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

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

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements

June 30, 2012

11. Employee Retirement Plan (continued)

Funding Policy

The District requires employees to contribute 5.0% of earnable compensation.

The District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 14.30% of covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the District is established and may be amended by the TCRS Board of Trustees. The District became responsible for the employees previously contracted with Loudon County, Tennessee on January 1, 2010. With that event, the eligible employees in the TCRS program had their funds transferred into an account and an actuarial valuation was performed as of April 1, 2011. From that valuation the District was notified that the amounts being held for employees and the employer matching contributions were remitted to the program and that payment was made in July 2011. In addition, the District was informed that the District should contribute at the actuarially determined rate of 4.42% beginning monthly in July 2011. The amount held at June 30, 2011 from employee's totals \$30,232 and matching employer contributions were remitted in the amount of \$37,253.

Annual Pension Cost

For the year ending June 30, 2012, the District's annual pension cost of \$68,604 (of which \$37,253 related to amount accumulated thru June 30, 2011) to TCRS was equal to the District's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3.0% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increases in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market of total investments over a ten-year period. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Notes to Financial Statements
June 30, 2012

11. Employee Retirement Plan (continued)

Trend Information

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------------------|--------------------------------------|--|-----------------------------------|
| 6/30/12 | \$ 68,204 | 100.00% | \$ - |

As the District began its entry into the plan effective July 1, 2011, this is the only available year for trend information. In addition, as this is the initial entry to the plan by the District, the information required in regard to Funding Status and Funding Progress and the required supplementary information (RSI) Schedule of Funding Progress is not available for this presentation.

12. Subsequent Events

The District has evaluated events and transactions subsequent to the balance sheet date through November 12, 2012, which is the date the financial statements were available to be issued.

Supplementary Information

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Revenues and Expenses Compared to Budget
For the Year Ended June 30, 2012

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|----------------|----------------|--|
| Operating revenues: | | | |
| Emergency telephone surcharges | \$ 239,030 | 239,027 | (3) |
| TECB - shared wireless charge | 113,023 | 113,022 | (1) |
| TECB - operational funding | 211,042 | 183,173 | (27,869) |
| | <u>563,095</u> | <u>535,222</u> | <u>(27,873)</u> |
| Operating expenses: | | | |
| Salaries and wages: | | | |
| Director | 57,626 | 57,624 | 2 |
| Mapper | 37,793 | 37,773 | 20 |
| Dispatchers | 375,000 | 386,272 | (11,272) |
| Overtime | 1,000 | 1,049 | (49) |
| Part-time dispatchers | 47,000 | 49,712 | (2,712) |
| Part-time bookkeeping | 11,322 | 11,875 | (553) |
| | <u>529,741</u> | <u>544,305</u> | <u>(14,564)</u> |
| Employee benefits: | | | |
| Social security | 33,000 | 33,855 | (855) |
| Medicare | 8,000 | 7,918 | 82 |
| Life insurance | 500 | 500 | - |
| Medical/vision insurance | 81,000 | 80,117 | 883 |
| Dental insurance | 7,000 | 6,792 | 208 |
| Unemployment insurance | 9,300 | 9,290 | 10 |
| Retirement benefits | 31,000 | 30,950 | 50 |
| | <u>169,800</u> | <u>169,422</u> | <u>378</u> |
| Contracted services: | | | |
| Audit services | 6,750 | 6,750 | - |
| Accounting services (payroll preparation) | 5,600 | 5,535 | 65 |
| Fees paid to service providers | 166 | 165 | 1 |
| Legal services | 8,200 | 8,200 | - |
| Contracted maintenance services | 16,000 | 15,945 | 55 |
| NCIC/TBI/TIES | 7,200 | 7,200 | - |
| Maintenance and repairs: | | | |
| Communications equipment | 12,000 | 11,656 | 344 |
| Building and facilities | 7,900 | 7,869 | 31 |
| Office equipment | 1,200 | 1,136 | 64 |
| Vehicle | 2,500 | 2,309 | 191 |
| Vehicle fuel | 3,000 | 2,937 | 63 |
| | <u>70,516</u> | <u>69,702</u> | <u>814</u> |

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Revenues and Expenses Compared to Budget (continued)
For the Year Ended June 30, 2012

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|-----------|-----------|--|
| Supplies and materials: | | | |
| Office | \$ 3,200 | 4,861 | (1,661) |
| Postage | 385 | 384 | 1 |
| Small equipment purchases | 10,000 | 32,363 | (22,363) |
| Uniforms and shirts | 2,300 | 2,233 | 67 |
| Utilities: | | | |
| Electric, gas, water | 17,000 | 16,647 | 353 |
| General telephone | 41,000 | 40,212 | 788 |
| Cell phones and pagers | 2,500 | 2,389 | 111 |
| | 76,385 | 99,089 | (22,704) |
| Other charges: | | | |
| Board meetings | 190 | 189 | 1 |
| Dues and memberships | 1,300 | 1,294 | 6 |
| Employee testing and exams | 1,400 | 1,335 | 65 |
| Insurance: | | | |
| Workers compensation | 2,255 | 2,255 | - |
| Liability | 3,716 | 3,716 | - |
| Building and contents | 6,865 | 6,865 | - |
| Equipment | 230 | 230 | - |
| Vehicles | 1,500 | 1,500 | - |
| Legal notices | 20 | 16 | 4 |
| Premium on surety bonds | (56) | (56) | - |
| Employee service awards | 5,900 | 5,806 | 94 |
| Training | 5,800 | 5,745 | 55 |
| Travel | 7,200 | 7,187 | 13 |
| Internet | 1,200 | 1,143 | 57 |
| Other | 35 | 33 | 2 |
| | 37,555 | 37,258 | 297 |
| Depreciation | 166,330 | 166,772 | (442) |
| Total operating expenses | 1,050,327 | 1,086,548 | (36,221) |
| Excess of operating revenues over (under) operating expenses | (487,232) | (551,326) | (64,094) |

(continued)

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Revenues and Expenses Compared to Budget (continued)
For the Year Ended June 30, 2012

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|----------------------|-----------------|---|
| Nonoperating revenues (expenses): | | | |
| Interest income | \$ 820 | 819 | (1) |
| Contributions from primary government | 540,000 | 540,000 | - |
| TECB - grants and reimbursements | 38,957 | 38,957 | - |
| Miscellaneous income | 12 | 12 | - |
| Interest expense | <u>(51,000)</u> | <u>(50,034)</u> | <u>966</u> |
| Total nonoperating revenues (expenses) | <u>528,789</u> | <u>529,754</u> | <u>965</u> |
| Excess of revenues over (under) expenditures | \$ <u>41,557</u> | (21,572) | <u>(63,129)</u> |
| Adjustments required to reconcile with financial statement - "Statement of Revenues, Expenses and Changes in Net Assets": | | | |
| Capital equipment purchases | | <u>26,307</u> | |
| Change in net assets | | <u>\$ 4,735</u> | |

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Schedule of Insurance in Force

June 30, 2012

| <u>Description</u> | <u>Coverage</u> |
|---|-----------------------------|
| Property and Commercial Liability: | |
| Risks of Direct Physical Loss Subject to Normal Conditions and Exclusions: | |
| Building and Personal Property - 500 John Parris Way | Guaranteed replacement cost |
| Contractor's equipment - all risk/blanket coverage | \$ 500,000 |
| Electronic data processing equipment - each occurrence | 1,000,000 |
| Extra expense - each occurrence | 5,000,000 |
| Valuable papers - each occurrence | 1,000,000 |
| Automobile Liability: | |
| Liability - combined single limit | 1,000,000 |
| Uninsured/underinsured motorists | 1,000,000 |
| Medical payments - any one person/any one claim | 5,000/100,000 |
| Physical damage | Actual cash value |
| Workers' Compensation Liability: | Statutory Limits |
| General Liability: | |
| Bodily injury and property damage - combined single limit | 1,000,000 |
| Crime: | |
| Employee fidelity - each loss | 150,000 |
| Loss inside/outside - each loss | 150,000 |
| Monthly orders and counterfeit papers - each loss | 150,000 |
| Depositors forgery - each loss | 150,000 |
| Public officials liability - each occurrence | 1,000,000 |
| Employee liability - each claim/per member | 1,000,000 |
| Cyber liability - \$5,000 deductible | 1,000,000 |

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Roster of Officials

June 30, 2012

Board of Directors

Tim Guider - Chairman
James Webb - Vice Chairman
Mike Brubaker
Daryl H. Smith
Ronnie Lett
Richard Martin
Don White
Steve Harrelson
Bill Hart

Management

Jennifer Estes - Director

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

| <u>Grantor Agency</u> | <u>Program Name</u> | <u>CFDA #</u> | <u>Balance June 30, 2011</u> | <u>Cash Receipts</u> | <u>Expenditures</u> | <u>Repaid</u> | <u>Balance June 30, 2012</u> |
|---------------------------------------|--|---------------|----------------------------------|--------------------------|---------------------|---------------|----------------------------------|
| <u>Federal Assistance:</u> | | | | | | | |
| <u>Loans</u> | | | | | | | |
| <i>U.S. Department of Agriculture</i> | | | | | | | |
| | Water and Waste Disposal Systems for Rural Communities | 10.760 | \$ <u>1,231,311</u> | <u>-</u> | <u>-</u> | <u>40,506</u> | <u>1,190,805</u> |



**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**

The Board of Directors
Loudon County Emergency Communications District
Loudon, Tennessee

We have audited the financial statements of the Loudon County Emergency Communications District (the "District"), a component unit of Loudon County, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the 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 a part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly,

Richard A. Goldstine • J. Wesley Edmondson • Tim Royster • Jenny C. Raines • Michelle Herrell



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 are described in the accompanying schedule of findings and responses on page 27.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit that response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, State of Tennessee, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

HG & A Associates, P.C.

November 12, 2012

**LOUDON COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**
Schedule of Findings and Responses
Year Ended June 30, 2012

The following finding is from our audit of the Loudon County Emergency Communications District (the "District") and our recommendation to management. Immediately following the recommendation is management's response to that finding and recommendation.

12-1 Finding: Budget vs. Actual Expenses

Condition: Several line items of expense exceeded the approved budgeted amount.

Criteria: TCA 7-86-120 states that no emergency communications district may spend money except in accordance with an adopted budget.

Effect: The District was not in compliance with TCA 7-86-120.

Recommendation: The *Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts* Section II page 6 states that the budgets for Emergency Communications Districts are to be set at the line-item level. In order to comply with the manual we recommend the District Executive Director present the necessary budget amendments to the District's Board of Directors for approval of increases in each line item as situations arise whereby required expenditures will exceed budgeted amounts.

Management's Response:

Mostly this finding was related to an accounting error involving a payroll that was divided by the end and beginning of a fiscal year. The error has been identified and will be avoided in the future. In the future, it will be ensured the budget amendments will be presented to the Board of Directors for increases as the operational needs warrant those increases prior to the end of the fiscal year.