

**EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE**

FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

FOR YEARS ENDED JUNE 30, 2014 AND 2013

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE

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## INTRODUCTORY SECTION

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
YEAR ENDED JUNE 30, 2014

BOARD OF DIRECTORS AND MANAGEMENT LISTING

BOARD OF DIRECTORS

John Moser	Chairman
Kenneth Calvert	Vice-chairman
Vivian Crymble	Treasurer
Eddie Wampler	Board member
Conner Caldwell	Board member
Hunter Wright	Board member
Mary Margaret Denton	Board member

BY VIRTUE OF OFFICE

David Quillin, Chief of Police	Board member
Craig Dye, Fire Chief	Secretary

MANAGEMENT

Jerry Mowl	Executive Director
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LEGAL COUNSEL

Joe May	Attorney
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## FINANCIAL SECTION

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Johnson City, TN 37601

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## INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
Emergency Communications District of the City of Kingsport, Tennessee  
Kingsport, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Emergency Communications District of the City of Kingsport, Tennessee (the District), a component unit of the City of Kingsport, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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



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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Emergency Communications District of the City of Kingsport, Tennessee as of June 30, 2014 and 2013, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and the schedules of revenues and expenses – budget and actual presented in the supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014 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* in considering the District's internal control over financial reporting and compliance.

*Lewis & Associates, P.C.*

Johnson City, Tennessee  
December 18, 2014

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEARS ENDED JUNE 30, 2014 AND 2013

As financial management of the Emergency Communications District of the City of Kingsport, Tennessee (the "District"), a component unit of the City of Kingsport, Tennessee, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

### **Financial Highlights**

The District incurred an operating loss of \$87,443 for fiscal year 2014, compared to operating income of \$97,653 for fiscal year 2013 and \$153,437 for fiscal year 2012. The principal causes for the 2014 loss were lower emergency service charge revenues and increased depreciation expense. Operating income and non-operating revenue produced an increase in net position of \$113,175 in 2014 compared to \$734,345 in 2013 and \$220,193 in 2012. The term "net position" refers to the difference between assets and liabilities. At the close of fiscal year 2014, the District has net position of \$3,550,725, an increase of 3% over the prior year, and at the close of the fiscal year 2013, the District has net position of \$3,437,550, an increase of 27% over the prior year.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. Since the District consists of a single enterprise fund, no fund level financial statements are shown. In addition, the District has no infrastructure assets and is therefore exempt from required infrastructure disclosures. This report also contains other supplementary information concerning the District's budget to actual comparisons.

**Basic financial statements:** The basic financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position which indicates an improved financial position.

The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

**Other information:** In addition to the financial statements and accompanying notes, this report also presents certain supplementary information concerning the District's budget to actual comparison.

## Financial Analysis

Net position may serve, over time, as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$3,550,725 at June 30, 2014. This represents an increase \$113,175 (3%) over the previous year. The unrestricted net position was \$2,460,529. At the close of June 30, 2013, assets exceeded liabilities by \$3,437,550 and represented an increase of \$734,345 (27%) over the previous year. The unrestricted net position was \$2,958,912.

The largest portion of the District's net position reflects its cash and investment in certificates of deposit. These certificates of deposit are in various local financial institutions all of which are members of the Tennessee State Collateral Pool. Interest rates on these certificates range from 0.15% to 0.30%. Maturity dates range from August, 2014 to November, 2014. Much of the funds invested in certificates of deposits are expected to be used to purchase capital assets within the next fiscal year. The Board considers the upgrade of the 911 system to be an ongoing process to stay current with technological advances.

Emergency Communications District's Net Position was as follows for the fiscal years ended June 30, 2014, 2013, and 2012.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current Assets	\$ 2,662,094	\$ 2,966,166	\$ 2,628,823
Capital Assets	1,090,196	478,638	78,926
Total Assets	<u>3,752,290</u>	<u>3,444,804</u>	<u>2,707,749</u>
Current Liabilities	<u>201,565</u>	<u>7,254</u>	<u>4,546</u>
Net Position:			
Investment in Capital Assets	1,090,196	478,638	78,926
Unrestricted	<u>2,460,529</u>	<u>2,958,912</u>	<u>2,624,277</u>
Total Net Position	<u>\$ 3,550,725</u>	<u>\$ 3,437,550</u>	<u>\$ 2,703,203</u>

Emergency Communications District's Changes in Net Position was as follows for the fiscal years ended June 30, 2014, 2013, and 2012.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues	\$ 501,188	\$ 607,625	\$ 658,511
Operating Expenses	<u>588,631</u>	<u>509,972</u>	<u>505,074</u>
Income from Operations	(87,443)	97,653	153,437
Non-Operating Revenues (Expenses):			
Interest Income	4,805	7,072	13,997
State Grants and Reimbursements	<u>195,813</u>	<u>629,620</u>	<u>52,759</u>
Non-Operating Revenues (Expenses)	<u>200,618</u>	<u>636,692</u>	<u>66,756</u>
Increase in Net Position	113,175	734,345	220,193
Net Position, Beginning of Year	<u>3,437,550</u>	<u>2,703,205</u>	<u>2,483,010</u>
Net Position, End of Year	<u>\$ 3,550,725</u>	<u>\$ 3,437,550</u>	<u>\$ 2,703,203</u>

## **Significant Events**

In 2014, \$18,819 of equipment was purchased. \$13,857 consisted of new communications equipment and \$5,232 consisted of computer equipment. Additionally, the District purchased land for \$242,010 and incurred \$459,710 in construction costs in building a new 911 call center.

The District purchased \$442,162 of property and equipment during 2013.

## **Cash Flows**

Net cash from operating activities during the year ended June 30, 2014, was \$47,882, a decrease of \$41,447 from the prior year amount. This decrease was principally due to a decrease in receipts for Emergency Telephone Service Charges. Net cash from noncapital financing activities involving the receipt of monies from grants during the year ended June 30, 2014 were \$195,813. Net cash from investing activities for the year ended June 30, 2014, increased by \$827,747 primarily due to the sale of certificates of deposit to pay for land and construction costs.

Net cash from operating activities during the year ended June 30, 2013 were \$89,329, a decrease of \$120,655 from the prior year amount. This decrease was due principally to decreased receipts for Emergency Telephone Service Charges and higher payments to suppliers of goods and services. Net cash from noncapital financing activities during the year ended June 30, 2013 were \$629,620, mainly due to increased grant revenue. For capital financing activity, \$442,162 was spent on new equipment for year ended June 30, 2013.

Net cash from operating activities during the year ended June 30, 2012 were \$209,984, an increase of \$89,487 from the prior year amount. The increase is principally due to higher operating revenues and reduced expenses. Net cash from noncapital financing activities from grant revenues added \$24,000 in cash while net cash from capital and related financing activities decreased by \$31,134 for equipment purchases and increased by \$28,759 for grants received.

## **Budgeting Highlights**

The original budget was approved in June, 2013 for the fiscal year ended June 30, 2014 and was amended as needed throughout the year. The original and final budgets are presented as separate columns in the supplementary information.

## **Capital Asset and Debt Administration**

Capital Assets: The District's investment in capital assets amounts to \$1,090,196, net of accumulated depreciation as of June 30, 2014, an increase of \$611,558. Capital assets primarily include communications equipment and computer hardware and software used in 911 communications. Major capital asset events during the current fiscal year include the purchase of land and construction in progress of new call center.

Long-Term Debt: The District had no long-term debt as of June 30, 2014 and 2013, respectively.

## **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer, Emergency Communications District of the City of Kingsport, Tennessee, PO BOX 1326, Kingsport, Tennessee 37662-1326.

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE

STATEMENTS OF NET POSITION  
JUNE 30, 2014 AND 2013

	2014	2013
<b>Assets</b>		
Current Assets:		
Cash	\$ 1,893,713	\$ 1,355,578
Certificates of Deposit	662,278	1,482,468
Interest Receivable	1,180	4,058
Accounts Receivable	16,238	19,638
Due from TN Emergency Communications Board	20,896	20,440
Prepaid Expenses	67,789	83,984
Total Current Assets	2,662,094	2,966,166
Non-Current Assets:		
Capital Assets:		
Furniture and Fixtures	21,819	21,819
Office Equipment	69,925	64,693
Communications Equipment	1,089,793	1,076,206
Other Fixed Assets	28,780	28,780
Land	242,010	-
Construction in Progress	459,710	-
Less: Accumulated Depreciation	(821,841)	(712,860)
Total Non-Current Assets	1,090,196	478,638
Total Assets	\$ 3,752,290	\$ 3,444,804
<b>Liabilities and Net Position</b>		
Current Liabilities:		
Accounts Payable	\$ 14,459	\$ 7,254
Due on Construction Contracts	168,866	-
Retainage Payable on Contracts	18,240	-
Total Liabilities	201,565	7,254
Net Position:		
Investment in Capital Assets	1,090,196	478,638
Unrestricted	2,460,529	2,958,912
Total Net Position	3,550,725	3,437,550
Total Liabilities and Net Position	\$ 3,752,290	\$ 3,444,804

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

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
<b>Operating Revenues:</b>		
Emergency Telephone Service Charge	\$ 210,734	\$ 321,697
Tennessee Emergency Communications Board Shared Wireless Charge	123,240	118,714
Tennessee Emergency Communications Board Operating Fund	167,214	167,214
Total Operating Revenues	501,188	607,625
<b>Operating Expenses:</b>		
Advertising	2,423	368
Audit Services	6,673	6,716
Accounting Services	7,850	7,485
Administrative Fees	6,322	9,655
Contracts with Government Agency	266,500	266,500
Fees Paid to Service Providers	59,434	50,805
Legal Fees	6,725	19,263
Liability Insurance	48	23
Maintenance/Communication Equipment	74,312	56,613
Office Supplies	2,428	1,013
Postage	20	27
Board Meeting Expenses	-	266
Dues and Memberships	5,400	5,545
Appraiser	-	2,500
Surety Bonds	3,213	4,978
Service Awards	42	204
Travel	27,940	19,942
Training	10,320	15,619
Depreciation	108,981	42,450
Total Operating Expenses	588,631	509,972
<b>Operating Income (Loss)</b>	(87,443)	97,653
<b>Non-Operating Revenues (Expenses):</b>		
Interest	4,805	7,072
Reimbursement TN Emergency Communications Board Grants and Reimbursements	195,813	629,620
Total Non-Operating Revenues (Expenses)	200,618	636,692
<b>Increase in Net Position</b>	113,175	734,345
<b>Net Position, Beginning of Year</b>	3,437,550	2,703,205
<b>Net Position, End of Year</b>	\$ 3,550,725	\$ 3,437,550

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

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
<b>Cash Flows from Operating Activities:</b>		
Receipts from Emergency Telephone Service Charges	\$ 214,134	\$ 341,481
Receipts from TN ECB Shared Wireless Charges	122,784	116,843
Receipts from TN ECB Operating Fund	167,214	167,214
Payments for Contracts with Government Agency	(266,500)	(266,500)
Payments to Service Providers	(59,434)	(50,805)
Payments to Suppliers for Goods and Services	(130,316)	(218,904)
Net Cash Flows Provided by Operating Activities	47,882	89,329
<b>Cash Flows from Noncapital Financing Activities:</b>		
State Grant and Reimbursement	195,813	629,620
Net Cash Flows Provided by Noncapital Financing Activities	195,813	629,620
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Purchase of Capital Assets	(533,432)	(442,161)
Net Cash Flows Used in Capital and Related Financing Activities	(533,432)	(442,161)
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Matured Certificates of Deposit	827,729	-
Interest Income	143	125
Net Cash Flows Provided by Investing Activities	827,872	125
<b>Net Increase in Cash</b>	538,135	276,913
Cash, Beginning of Year	1,355,578	1,078,665
<b>Cash, End of Year</b>	\$ 1,893,713	\$ 1,355,578
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</b>		
Operating Income	\$ (87,443)	\$ 97,653
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation	108,981	42,450
(Increase) Decrease in Accounts Receivable	3,400	19,784
(Increase) Decrease in Due from TN ECB	(456)	(1,871)
(Increase) Decrease in Prepaid Expenses	16,195	(71,394)
Increase (Decrease) in Accounts Payable	7,205	2,707
<b>Net Cash Flows Provided by Operating Activities</b>	\$ 47,882	\$ 89,329

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

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE

NOTES TO FINANCIAL STATEMENTS  
FOR YEARS ENDED JUNE 30, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information

The Emergency Communications District of the City of Kingsport, Tennessee (the District) was created by a referendum held on January 11, 1994, the results of which were certified on January 20, 1994, as required by Tennessee Code Annotated Title 7 Chapter 86 "Emergency Communications District" section 7-86-104. The purpose of the Emergency Communications District is to oversee the operations of the 911 emergency telephone services for the city. The Board consists of nine members, all of whom are appointed by the Board of Mayor and Aldermen of the City of Kingsport, Tennessee.

Reporting Entity

The criteria set forth in Governmental Accounting Standards Board (GASB) Statement No.14 *The Financial Reporting Entity* were used to determine that the District is a component unit of the City of Kingsport, Tennessee. The basic, but not the only, criteria for including a potential component unit within the primary government's reporting entity is the primary government's financial accountability for the potential component unit. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. The Board of Mayor and Aldermen of the City of Kingsport appoint all nine members of the Board of Directors of the Emergency Communications District of the City of Kingsport, Tennessee. Traditionally, two of the Board members are employees of the City of Kingsport who serve on the Board as part of their duties as Police Chief and Fire Chief. In addition, all personnel performing the daily operations of the Emergency Communications District are employees of the City of Kingsport. The City of Kingsport therefore has the ability to impose its will on the Emergency Communications District of the City of Kingsport. Based upon the application of these criteria, the Emergency Communications District is a component unit of the City of Kingsport, Tennessee.

Basis of Presentation

The accounts of the District are organized on the basis of a proprietary fund type and are considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, and revenues and expenses, as appropriate. Government resources are allocated to and accounted for in the fund based on the purposes for which they are to be spent and the means by which spending activities are controlled.

The accounts of the District are on an enterprise fund basis. An enterprise fund is a proprietary type fund used to account for operations that (1) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (2) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District operates as a singular enterprise fund.

Measurement Focus and Basis of Accounting

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Measurement Focus and Basis of Accounting (continued)

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included in the statement of net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations. The principal operating revenues of the District are charges to phone customers for emergency surcharges. Operating expenses include the cost of contracted services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all demand deposit, savings, and money market accounts to be cash. Any certificates of deposit, treasury bills, or other short-term investments with an initial maturity of less than three months are classified as cash equivalents. At June 30, 2014 and 2013 the District held no short-term investments classified as cash equivalents.

### Prepaid Expenses

The cost of prepaid expenses that include maintenance contracts are charged to operations over the period of coverage. As of June 30, 2014 and 2013, prepaid costs were \$67,789 and \$83,984, respectively.

### Capital Assets

Capital assets are defined by the District assets with an initial cost of more than \$500 and an estimated useful life in excess of one year. Capital assets are stated at cost, net of accumulated depreciation and amortization. Donated assets are recorded at estimated fair market value at the date of donation. Depreciation and amortization is computed on a straight-line basis over the estimated lives of the assets, as follows:

Furniture and fixtures	7-10 years
Office equipment	5-7 years
Communications equipment	5-7 years
Other fixed assets	5-7 years.

Assets that are retired or disposed of are removed from the books along with any accumulated depreciation and any resulting gain or loss is recognized at the time of disposal. The cost of repairs and maintenance that do not add value to the capital assets or extend the useful life of the capital assets are expensed when incurred.

### Revenue

The Emergency Communications District receives the service charges billed and collected by telephone companies operating within the District's area of responsibility directly from those telephone companies. The State of Tennessee collects and remits a percentage of wireless charges to the District.

### Expenses

The City of Kingsport, Tennessee provides the physical facilities, employees, and administrative services necessary to operate the District on a contractual fee basis.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income Taxes

The Emergency Communications District is an agency organized and existing pursuant to the provisions of Tennessee Code Ann. 7-86-101 which is exempt from federal income taxes pursuant to 26 USC 115 relating to income of states, municipalities, etc.

### Budget

The District is required by state statute to adopt an annual budget. The annual budget is prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenses must be presented at the legal level of control, which is defined to be at the line-item level. The budget may be amended by the Board of Directors as conditions warrant throughout the year.

### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of net position may sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The District did not have any deferred outflows of resources or deferred inflows of resources to report as of June 30, 2014.

### Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and contributions of capital. Net position is classified in the following three components as applicable: investment in capital assets, restricted for capital assets activity and debt service, and unrestricted net position. Investment in capital assets consists of all capital assets, net of accumulated depreciation, and, if applicable, deferred outflows of resources, reduced by any outstanding debt attributable to the acquisition, construction, and improvement of those assets, debt or deferred inflow of resources attributable to unspent proceeds or other restricted cash and investments are excluded from the determination. Restricted net position consists of net positions for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

### Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

### 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net position date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 2 - CASH AND CERTIFICATES OF DEPOSIT

At June 30, 2014 and 2013, total demand deposits and certificates of deposit for the District were held in financial institutions, which were members of the Tennessee Bank Collateral Pool. The Tennessee Bank Collateral Pool (the pool) is a multiple financial institution collateral pool in which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the members of the pool if the value of collateral is inadequate to cover a loss. The District's deposits in financial institutions were entirely insured or collateralized at June 30, 2014 and 2013.

At June 30, 2014, the District's carrying amount of deposits was \$1,893,713 and the deposits in financial institutions were \$1,895,577. At June 30, 2013, the District's recorded cash balance was \$1,355,578 and the bank balance was \$1,413,287.

At June 30, 2014 and 2013, the District's carrying amount of certificates of deposit was \$662,278 and \$1,482,468, respectively. Certificate of deposit types ranged from 12 month to 35 months and interest rates ranged from 0.15% to 1.15% for years ended June 30, 2014 and 2013.

NOTE 3 - CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2014 was as follows:

	<u>June 30,</u> <u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30,</u> <u>2014</u>
Capital Assets, Not Being Depreciated:				
Land	\$ -	\$ 242,010	\$ -	\$ 242,010
Construction in Progress	<u>-</u>	<u>459,710</u>	<u>-</u>	<u>459,710</u>
Total Capital Assets, Not Being Depreciated	<u>-</u>	<u>701,720</u>	<u>-</u>	<u>701,720</u>
Capital Assets, Being Depreciated:				
Furniture & Fixtures	21,819	-	-	21,819
Office Equipment	64,693	5,232	-	69,925
Communications Equipment	1,076,206	13,587	-	1,089,793
Other Fixed Assets	<u>28,780</u>	<u>-</u>	<u>-</u>	<u>28,780</u>
Total Capital Assets, Being Depreciated	<u>1,191,498</u>	<u>18,819</u>	<u>-</u>	<u>1,210,317</u>
Less Accumulated Depreciation:				
Furniture & Fixtures	(15,574)	(1,938)	-	(17,512)
Office Equipment	(63,112)	(1,204)	-	(64,316)
Communications Equipment	(605,394)	(105,839)	-	(711,233)
Other Fixed Assets	<u>(28,780)</u>	<u>-</u>	<u>-</u>	<u>(28,780)</u>
Total Accumulated Depreciation	<u>(712,860)</u>	<u>(108,981)</u>	<u>-</u>	<u>(821,841)</u>
Total Capital Assets, Being Depreciated, Net	<u>478,638</u>	<u>(90,162)</u>	<u>-</u>	<u>388,476</u>
Capital Assets, Net	<u>\$ 478,638</u>	<u>\$ 611,558</u>	<u>\$ -</u>	<u>\$ 1,090,196</u>

### NOTE 3 - CAPITAL ASSETS (CONTINUED)

Capital Assets activity for the year ended June 30, 2013 was as follows:

	June 30, 2012	Additions	Deletions	June 30, 2013
Capital Assets, Being Depreciated:				
Furniture & Fixtures	\$ 16,546	\$ 5,273	\$ -	\$ 21,819
Office Equipment	64,693	-	-	64,693
Communications Equipment	639,317	436,889	-	1,076,206
Other Fixed Assets	<u>28,780</u>	<u>-</u>	<u>-</u>	<u>28,780</u>
Total Capital Assets, Being Depreciated	<u>749,336</u>	<u>442,162</u>	<u>-</u>	<u>1,191,498</u>
Less Accumulated Depreciation:				
Furniture & Fixtures	(13,597)	(1,977)	-	(15,574)
Office Equipment	(57,541)	(5,571)	-	(63,112)
Communications Equipment	(570,492)	(34,902)	-	(605,394)
Other Fixed Assets	<u>(28,780)</u>	<u>-</u>	<u>-</u>	<u>(28,780)</u>
Total Accumulated Depreciation	(670,410)	(42,450)	-	(712,860)
Total Capital Assets, Being Depreciated, Net	<u>78,926</u>	<u>399,712</u>	<u>-</u>	<u>478,638</u>
Capital Assets, Net	<u>\$ 78,926</u>	<u>\$ 399,712</u>	<u>\$ -</u>	<u>\$ 478,638</u>

### NOTE 4 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to concentrations of credit risk are primarily cash and certificates of deposit. The District's bank deposits and certificates of deposit are maintained in banks insured by the Federal Deposit Insurance Corporation up to \$250,000 and the remaining amount of bank balance is covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department. Management does not believe significant credit risk exists at June 30, 2014.

### NOTE 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; and natural disasters. The District's coverage for claims and other risks of loss is described below.

The capital assets of the Emergency Communications District are insured by the City Of Kingsport's Blanket Insurance Policy. However, the City has a \$50,000 deductible on each loss per occurrence. The City is self-insured regarding the \$50,000 deductible. In addition, the District is listed as an additional named insured on the City of Kingsport's general liability policy. There were no settlements in excess of insurance coverage related to the Emergency Communications District for the year ended June 30, 2014. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District maintains a surety bond for \$500,000 on their treasurer, \$100,000 for the chair, and \$100,000 for each of the other three board members who are authorized to sign checks. These policies run on a calendar year.

### NOTE 6 - TRANSACTIONS WITH PRIMARY GOVERNMENT

The District contracts with the City of Kingsport (City) for use of City facilities, employees, and administrative services necessary to operate and maintain an emergency communications service for the District. The amounts paid and/or accrued to the City for years ended June 30, 2014 and 2013 were \$273,942 and \$266,500, respectively. The District reimbursement to the City for equipment totaled \$5,232 and \$0 for years ended June 30, 2014 and 2013, respectively. The City reimbursed the District for maintenance services on communication system in the amount of \$9,000 for each of the years ended June 30, 2014 and 2013.

## SUPPLEMENTARY INFORMATION

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original</u> <u>Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u> <u>Variance</u>
<b>Operating Revenues</b>				
Emergency Telephone Service Charge	\$ 340,000	\$ 205,000	\$ 210,734	\$ 5,734
TN ECB Shared Wireless Charge	112,000	112,000	123,240	11,240
TN ECB Operating Fund	167,000	167,000	167,214	214
Other Income	-	-	-	-
<b>Total Operating Revenues</b>	<u>619,000</u>	<u>484,000</u>	<u>501,188</u>	<u>17,188</u>
<b>Operating Expenses</b>				
Advertising	2,500	3,500	2,423	1,077
Audit Services	9,000	9,000	6,673	2,327
Accounting Services	8,500	8,500	7,850	650
Administrative Fees	13,000	13,000	6,322	6,678
Contracts with Government Agency	373,000	266,500	266,500	-
Fees Paid to Service Providers	66,000	66,000	59,434	6,566
Liability Insurance	50	50	48	2
Legal Fees	26,000	26,000	6,725	19,275
Maintenance/Communication Equipment	80,000	80,000	74,312	5,688
Mapping/Database Consultants	2,500	2,500	-	2,500
Other Consultants	2,500	2,500	-	2,500
Office Supplies	2,500	3,000	2,428	572
Postage	150	150	20	130
Board Meeting Expenses	4,000	4,000	-	4,000
Dues and Memberships	6,000	6,000	5,400	600
Surety Bonds	5,500	5,500	3,213	2,287
Service Awards	2,000	2,000	42	1,958
Training	40,000	30,000	10,320	19,680
Travel	30,000	40,000	27,940	12,060
Other Charges	1,000	1,000	-	1,000
Uncollectible service charge	2,000	2,000	-	2,000
Depreciation	125,000	125,000	108,981	16,019
<b>Total Operating Expenses</b>	<u>801,200</u>	<u>696,200</u>	<u>588,631</u>	<u>107,569</u>
<b>Operating Income (Loss)</b>	<u>(182,200)</u>	<u>(212,200)</u>	<u>(87,443)</u>	<u>124,757</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest	8,000	5,000	4,805	(195)
Reimbursement TN Emergency Communications Board Grants and Reimbursements	64,000	195,813	195,813	-
<b>Non-Operating Revenues (Expenses)</b>	<u>72,000</u>	<u>200,813</u>	<u>200,618</u>	<u>(195)</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ (110,200)</u>	<u>\$ (11,387)</u>	<u>\$ 113,175</u>	<u>\$ 124,562</u>

See independent auditors' report.

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original</u> <u>Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u> <u>Variance</u>
Operating Revenues				
Emergency Telephone Service Charge	\$ 340,000	\$ 340,000	\$ 321,697	\$ (18,303)
TN ECB Shared Wireless Charge	112,000	112,000	118,714	6,714
TN ECB Operating Fund	167,000	167,000	167,214	214
Other Income	-	-	-	-
Total Operating Revenues	<u>619,000</u>	<u>619,000</u>	<u>607,625</u>	<u>(11,375)</u>
Operating Expenses				
Advertising	2,500	2,500	368	2,132
Audit Services	9,000	9,000	6,716	2,284
Accounting Services	8,500	8,500	7,485	1,015
Administrative Fees	13,000	13,000	9,655	3,345
Contracts with Government Agency	373,000	373,000	266,500	106,500
Fees Paid to Service Providers	62,000	66,000	50,805	15,195
Liability Insurance	-	50	23	27
Legal Fees	16,000	26,000	19,263	6,737
Maintenance/Communication Equipment	70,000	80,000	56,613	23,387
Mapping/Database Consultants	2,500	2,500	-	2,500
Other Consultants	2,500	2,500	2,500	-
Office Supplies	2,500	2,500	1,013	1,487
Postage	150	150	27	123
Board Meeting Expenses	4,000	4,000	266	3,734
Dues and Memberships	5,000	6,000	5,545	455
Surety Bonds	5,500	5,500	4,978	522
Service Awards	2,000	2,000	204	1,796
Training	24,000	24,000	15,619	8,381
Travel	20,000	30,000	19,942	10,058
Other Charges	1,000	1,000	-	1,000
Uncollectible service charge	2,000	2,000	-	2,000
Depreciation	<u>87,000</u>	<u>87,000</u>	<u>42,450</u>	<u>44,550</u>
Total Operating Expenses	<u>712,150</u>	<u>747,200</u>	<u>509,972</u>	<u>237,228</u>
Operating Income	<u>(93,150)</u>	<u>(128,200)</u>	<u>97,653</u>	<u>225,853</u>
Non-Operating Revenues (Expenses)				
Interest	25,000	8,000	7,072	(928)
Reimbursement TN Emergency Communications Board Grants and Reimbursements	<u>253,346</u>	<u>527,880</u>	<u>629,620</u>	<u>101,740</u>
Non-Operating Revenues (Expenses)	<u>278,346</u>	<u>535,880</u>	<u>636,692</u>	<u>100,812</u>
Increase (Decrease) in Net Position	<u>\$ 185,196</u>	<u>\$ 407,680</u>	<u>\$ 734,345</u>	<u>\$ 326,665</u>

See independent auditors' report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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

To the Board of Directors  
Emergency Communications District of the City of Kingsport, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Emergency Communications District of the City of Kingsport, Tennessee (the District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 18, 2014.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Lewis & Associates, P.C.*

Johnson City, Tennessee  
December 18, 2014